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Banks' transition plan dependencies: from risks to opportunities

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Summary

Banks' transition plans have emerged as a key forward-looking tool for managing climate-related risks. Credit institutions often point to external factors – including policy, technological and macroeconomic conditions – as constraints on their capacity to deliver on their transition strategies. Yet this framing is challenged by a comparative analysis of the ways in which banks identify, categorise and treat dependencies in climate-related disclosures.

Headline findings

A comparative analysis of 35 transition planning documents produced by 21 deposit-taking Global Systemically Important Banks (six US, six EU, three UK, three Japanese, two Canadian and one Swiss institution) shows that:

- Dependencies are assumptions that determine the credibility of transition plans and underpin the assessment of whether transition risks are being effectively managed.
- Banks' distinction between internal and external dependencies is insufficient, as it fails to capture these credit institutions' distinctive role as financial intermediaries. This is best captured by a new, third category: *intermediated dependencies*. Intermediated dependencies arise where the delivery of a bank's transition strategy depends on the behaviour, capacity or choices of clients and counterparties, and where outcomes are neither wholly external nor fully within the institution's control.
- Transition plan dependencies are sector-specific, shaped by banks' business models and portfolio compositions, rather than uniform across the economy. Banks identify different constraints, enablers and assumptions across sectors, reflecting differences in technological readiness, client profiles, data availability, policy environments and transition pathways.
- Banks' treatment of dependencies varies materially across jurisdictions. EU banks more often frame dependencies as factors to be actively managed through engagement, transition finance and client support, while US banks more frequently present similar factors as exogenous constraints.

Policy recommendations

These findings have direct implications for bank supervision. Actively managing dependencies, particularly intermediated ones, through product design, client engagement and transition finance offers a route to more robust risk governance and a clearer view of transition-related opportunities. In this context, banks should:

- Consistently identify dependencies on which their transition strategy and risk management depend, and apply a structured taxonomy that also captures intermediated dependencies.
- Identify dependencies linked to concrete management actions, including client engagement, lending criteria, product design, transition financing and sectoral approaches.
- Treat intermediated and some external dependencies as potential commercial opportunities, where financing and advisory services can support client decarbonisation while strengthening the bank's own transition risk management.
- Explicitly link sustainable finance and climate solutions targets to identified dependencies rather than reporting them as standalone metrics.

Prudential authorities and policymakers should:

- Integrate dependency assessment into the transition risk supervisory toolbox.
- Assess how banks identify dependencies and whether they articulate credible levers for addressing them; and evaluate whether banks' disclosed dependencies are internally consistent with other transition plan assumptions and targets.
- Treat repeated references to common dependencies across banks as potential signs of regulatory or coordination gaps that require policy attention.

1. Introduction

In the face of climate change and environmental degradation, banks' transition plans have emerged as a key forward-looking tool to support the development and implementation of strategies and risk management approaches aimed at ensuring firm-level alignment with transition and resilience objectives (Dikau et al., 2025; Smoleńska and Poensgen, 2025). For banks, transition planning focuses to a significant extent on the financing they provide. Scope 3 financed emissions account for the vast majority of banks' climate impact and are, therefore, central to the design of decarbonisation targets, client engagement strategies and portfolio steering approaches. However, from a prudential perspective, transition plans' usability is sometimes perceived as limited because banks do not have control over 'external' factors such as government policy, technological uptake or macroeconomic conditions. Such criticism appears to overlook a key aspect of banking activity: managing risk over time in making capital allocation decisions.

Dependencies, or factors that affect firms' ability to deliver on their strategic transition commitments, are a key element of transition planning. However, existing approaches to assessing dependencies often underplay banks' role as intermediaries that will channel finance across the economy over the course of the transition. In this policy insight, we explain why this is the case and show that actively managing these dependencies offers a route to more robust risk governance and a clearer view of transition-related opportunities, in a manner that is aligned with the goals of prudential frameworks and banks' climate commitments. Even dependencies that banks cannot fully address are material to transition planning and risk management. Therefore, such dependencies should be identified, monitored and reflected in forward-looking assessments of transition risk.

Where transition plans support risk management in a forward-looking way, central banks and supervisors have already begun progressively integrating them into the prudential toolbox via, for example, dedicated prudential transition planning and scenario analysis requirements. To fully integrate transition plans into supervisory review processes (Smoleńska and Poensgen, 2025), supervisors must be able to engage qualitatively and quantitatively with the assumptions and conclusions that banks draw from their forward-looking analysis. From a supervisory perspective, all dependencies (including those banks disclose and those that are revealed through supervisory reporting) provide important signals about the **credibility of a bank's transition strategy and its approach to managing transition risk** in the context of its business model. This is because the assumptions banks make about technological, policy, market and client developments directly shape their assessment of future credit risk and portfolio performance. Understanding transition plan dependencies is, therefore, essential for assessing the robustness of banks' **forward-looking risk management frameworks**.

Current approaches to such assessment, developed in a sector-agnostic context, fail to recognise the specificities of individual banks' dependencies. This is particularly true of **intermediated (financed) dependencies**: factors relating to client investment decisions that fall within the sphere of influence of banks and other financial institutions due to their systemic role as providers of capital. Such dependencies relate to the behaviour, capacity and choices of entities that a bank directly interacts with and, in some cases, can be addressed by that bank's risk management and financing decisions.

We intend to support supervisors' assessment of climate change risk management across jurisdictions, regardless of whether a dedicated transition plan is required locally. More specifically, we develop an analytical lens through which supervisors can better understand how banks identify, categorise and disclose the dependencies affecting their transition strategies. This lens can also help supervisors assess whether banks' treatment of dependencies is consistent with the assumptions underlying the development of banks' own sectoral transition targets and approaches. In turn, the lens can inform assessments of the credibility of a bank's transition strategy in the context of its business model, and of the robustness of its approach to climate risk management.

We show how, globally, banks differ in their practices linked to sectoral dependencies and in their ability to address such dependencies. We also show how an analysis of banks' transition plan dependencies can support the identification of transition-related opportunities. That perspective allows for substantive engagement with banks' frequent claims that they are merely a reflection of the

economy as regards the transition rather than agents. As part of this, we show the circumstances in which banks have the scope for a proactive and forward-looking approach to transition risk management through service and product development, particularly in relation to prudential matters.

Our findings have practical implications for the supervision of transition risks and banks' financing decisions. Having set climate targets in recent years, banks are now at an inflection point, with some having already dropped their targets. Since 2025, driven partly by the divergence of the policy and regulatory environment across regions, several banks have weakened or scrapped their net zero commitments and targets. For those that have retained their targets, there is a risk that their commitments will remain aspirational. Banks have strong financial incentives to keep engaging with carbon-intensive clients. The European Central Bank (ECB) found that carbon-intensive sectors account for more than 60% of total non-financial corporate interest income (ECB, 2022). Banks can face a "first-mover disadvantage" and lose market share to their competitors if they exceed the emissions reduction ambitions of their clients (Knijp and McKechnie, 2025: 39). In this context, altering banks' product and finance offer can improve their long-term resilience in the face of transition risks, while simultaneously contributing to the goals of rechannelling capital flows to clean investments. In short, banks may use transition risk management to support sustainably profitable opportunities in climate-transition financing.

The remainder of this policy insight is structured as follows. Section 2 discusses how dependencies have been treated in the literature and in regulation, and makes the case for a bespoke treatment of such factors in the context of the banking sector. Section 3 outlines the key findings from a comparative analysis of the bank dependencies we identified. Section 4 makes targeted recommendations for further integrating dependency management into banks' transition planning.

2. Dependencies in transition plans

Dependencies are a key concept in transition planning. Key standards and guidance require disclosure of the assumptions and enabling conditions that underpin transition plans' targets and risk management strategies, as part of an effort to demonstrate the basis on which banks have set targets and milestones (IFRS Foundation, 2025; TPT, 2023; UK TFC, 2026; NGFS, 2025). In this approach, entities are expected to identify and disclose dependencies on policy developments, infrastructure, specific technologies, supply chains, market conditions and market enablers, and to indicate how uncertainties around those dependencies have been factored into planning. The EU's Corporate Sustainability Reporting framework likewise requires entities to disclose the assumptions and dependencies their plans rely on (European Commission, 2026). Dependencies have, therefore, emerged as an important concept for strengthening transition plans' credibility and guarding against greenwashing. This disclosure of dependencies allows users to assess whether the strategy pursued is realistic, the delivery risks have been recognised and the entity has identified actions to manage or respond to those risks. However, precisely how entities should differentiate between and act on specific types of dependencies is underexplored.

Policy experts and researchers have sought to address the gap in how dependencies are conceptualised and managed in transition planning practice. The European Commission's Joint Research Centre has developed a typology of external factors and a geographical dependency assessment toolkit, focusing on asset-level dependencies in energy-intensive industries and how geographic characteristics (infrastructure availability, local policy context) affect the feasibility of specific decarbonisation levers (Pickard Garcia et al., 2024). Factors beyond the direct control of a company can significantly influence the successful implementation of corporate climate transition plans, as reflected in a structured framework for assessing and managing such dependencies (Rose et al., 2025). This literature has made a broad distinction between external dependencies (those outside the control of the preparing entity) and internal ones (those that are more easily within the remit of control). Existing practitioner-facing guidance has explored different strategies for addressing dependencies in a sector-agnostic way, focusing especially on different forms of engagement with policymakers, technology providers, industry peers and value chain partners as the principal mechanism through which entities can seek to influence outcomes (Manning et al., 2025). However, from the perspective of transition planning in the financial sector, the key activities of financing and

investment decision-making need to be developed further, particularly in prudential matters. Moreover, there is limited clarity on how supervisors should assess the adequacy of banks' treatment of dependencies. While regulators have required dependency disclosure as a reputational matter (e.g., [European Banking Authority \[EBA\], 2025](#)), there is a lack of clear supervisory expectations in this area ([Dikau et al., 2025](#)).

To address this gap, we first draw attention to the coordination function of transition planning processes and their *dynamic* rather than *static* qualities. First, the choices companies make when designing their transition strategies have long-term implications for their operations and may trigger further self-reinforcing changes in internal governance, business processes and risk management practices. Second, transition plans, especially those developed by entities operating across sectors and within the context of value chains, support coordination in the transition. Therefore, transition plans cannot be designed, implemented or assessed in isolation: their feasibility and delivery depend on multiple stakeholders, whose actions determine a transition plan's feasibility ([Manning et al., 2024](#)). These two features mean that *dependencies* in transition plans are, in fact, *interdependencies*, where the behaviour of individual actors may support positive (or negative) feedback loops across the system over time. This systemic dimension of dependencies is particularly pronounced in the case of financial intermediaries, such as banks.

The distinctive role of finance in the economy is reflected in how transition planning unfolds in the financial sector. Unlike non-financial corporates, whose transition plans typically focus on transforming their own operations and value chains, financial institutions' transition plans are centred on how their financing activities reflect and influence the transition pathways of the real economy. This is why several jurisdictions and standard setters are developing bespoke transition planning requirements for the banking and insurance sectors ([International Organization for Standardization, 2026](#); MAS, 2025; EU, 2026). In their communications around transition plans, banks tend to identify specific conditions as necessary for delivering on net zero targets. These conditions include the deployment of low-carbon technologies, supportive policy frameworks and an adequate pace of client-level transition. However, where a bank finances numerous clients within the same sectors, the sectoral strategies embedded in the bank's transition plans can influence the behaviour of multiple firms simultaneously, potentially shaping financing conditions and expectations across entire industries. This impact is reinforced across the banking sector as a whole, as large corporates are often financed by multiple credit institutions through syndicated loans and other shared financing arrangements. As a result, the transition strategies adopted by individual banks can interact with and reinforce one another, affecting the broader financing environment in specific sectors. Moreover, climate-related risks are partly **endogenous to the financial system**, meaning that banks' financing decisions influence the pace and direction of decarbonisation in the real economy by supporting the transition of high-emitting firms through financing, engagement and efforts to restructure exposures. Through these channels, banks not only respond to climate risks but also play a role in shaping the trajectory of those risks over time.

To deepen our understanding of the specificities of bank dependency dynamics, we conducted a comparative analysis of publicly available transition plans and other climate-related disclosures with forward-looking components produced by all deposit-taking Global Systemically Important Banks (G-SIBs). Our review encompassed 35 transition planning documents produced by 21 institutions on the Financial Stability Board's list of G-SIBs. The final sample comprised six US banks, six EU banks, three UK banks, three Japanese banks, two Canadian banks and one Swiss bank.¹ For each institution, we reviewed the most recent transition planning disclosure available at the time the analysis was conducted (in Q4 2025), primarily comprising sustainability and climate disclosures for 2023 and 2024. Where relevant, our review extended beyond a standalone transition plan document to include supplementary materials directly related to transition planning, such as climate reports, sustainability reports, net zero strategy documents, technical annexes and supplementary disclosures. In these documents, we identified all factors that banks explicitly or implicitly treated as conditions affecting the development and implementation of their transition plans and climate-related objectives. We adopted a broad definition of a dependency as any factor, condition or enabling element that a bank

¹ Our sample covered all G-SIBs for which a publicly disclosed transition plan, or disclosure equivalent to a transition plan, could be identified. In this sample, we excluded institutions whose business models are predominantly centred on custody, asset servicing or related activities, and which do not intermediate credit to corporates and the real economy in a broadly comparable manner to universal or commercial lending institutions.

explicitly or implicitly identifies as influencing its ability to deliver on its transition plans. Such factors could be internal to the institution, embedded in its relationships with clients and stakeholders, or a result of the broader external environment.

3. Findings

Key Finding 1: Banks' transition plan dependencies are sector-specific

Banks' transition plans hinge on sectoral decarbonisation targets and strategies. Beginning with a few priority sectors, credit institutions typically set forward-looking climate objectives for a subset of key sectors deemed material to their transition strategies. The dependencies underpinning these plans are also sector-specific, shaped by banks' business models, portfolio compositions, geographic footprints and internal analytical capabilities. Individual sectors face different types of challenges along their decarbonisation pathways, due to variations in client profiles, geographic scope, regulatory environments and technological maturity. Therefore, banks manage and adopt differentiated approaches to a sectoral transition across their portfolios.

All the analysed banks present their transition strategies and net zero objectives through sector-specific discussions and targets. Across G-SIBs, the high-emitting sectors referenced in transition plans broadly align with the **priority sectors** identified in globally recognised frameworks, including guidance from the now defunct Net-Zero Banking Alliance (NZBA) and, subsequently, the United Nations Environment Programme Finance Initiative (UNEP FI), as well as sectoral target-setting methodologies. This alignment reflects the influence of these frameworks on how banks define their sectoral activity, set targets and structure their disclosures. For example, banks may prioritise sectors where their exposures are most material, but also where data availability and modelling capacity are sufficient to support credible target-setting and monitoring. Banks' reporting narratives may also shape which sectors they prioritise: in this sense, sectoral targets can be understood as reflecting how banks frame and disclose their sectoral priorities rather than as independent assessments of the materiality of those sectors to banks' financed emissions or the economy's decarbonisation.

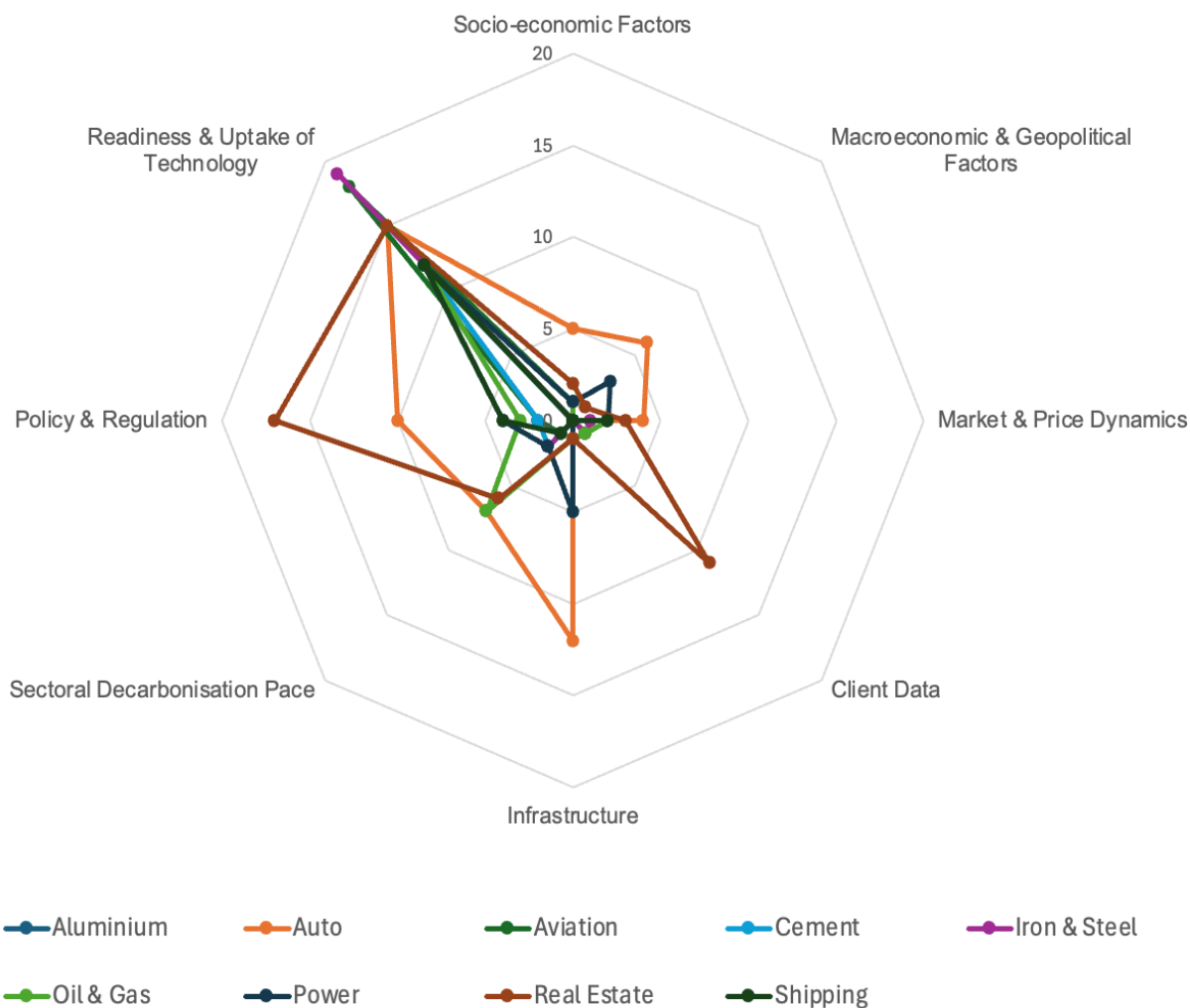
These patterns are reflected in our sample, where there is a clear concentration of targets in energy-related sectors and in the automotive sector, in line with findings from the State of the Banking Transition Report 2025 (Brochard et al., 2025). By contrast, coverage of other high-emitting sectors, such as industry, transport, real estate and agriculture, remains uneven across institutions. This may reflect strategic and reputational choices by firms, as well as data availability. For example, research by the TPI Centre suggests that large banks adopt a sequenced approach to the process. They expand their sectoral scope over time, initially focusing on sectors where transition pathways are more established and data availability is better, before gradually including more heterogeneous or complex sectors.

While banks' transition plans broadly cover similar sectors, the framing of dependencies across sectors varies materially between institutions. In the disclosures we reviewed, Readiness and Uptake of Technology and Policy and Regulation emerged as the two most frequently cited dependency categories by a clear margin. References to technological readiness, deployment and adoption comprise around 30% of the sample, making this the most prominent dependency in banks' transition planning narratives. Policy and Regulation ranked second, accounting for approximately 16% of all references. This underscores the importance banks continue to attribute to stable policy frameworks, regulatory clarity, incentives and enabling public-sector action in supporting transition plan delivery.

To illustrate the variation in banks' approaches, we compiled all the dependencies they explicitly or implicitly referred to in relation to sectoral decarbonisation strategies, and categorised them according to the dependency taxonomy detailed in Table 3.1. Figure 3.1 visualises, across sectors, the relative weight that banks implicitly attribute to different types of dependencies through their disclosures. As the Figure shows, the underlying data also indicate that dependencies are not distributed uniformly across sectors. Both the volume of references and the granularity with which dependencies are discussed vary materially by sector, partly reflecting the relative importance of different sectors within banks' decarbonisation strategies and target-setting frameworks. Some

sectors attract a more sophisticated discussion of transition pathways and associated dependencies. For example, our sample included approximately 60 references each to dependencies in the real estate and automotive sectors, suggesting a more mature understanding of the conditions required for a sectoral transition. By contrast, sectors such as mining received comparatively little attention, with only four references. This likely reflects these sectors' more peripheral role within many banks' lending portfolios and financed emissions profiles.

Figure 3.1. Distribution of dependency type by sector



Our findings reflect banks' divergent interpretations of the constraints on transition delivery in practice, based on their portfolio exposure, geographic footprints and operating models. Furthermore, no sector's decarbonisation trajectory hinges on a single type of dependency. Rather, the delivery of banks' transition plans across sectors is subject to a mix of dependencies. The concentration and relative weight of these dependencies vary significantly depending on the sector's characteristics and the bank's positioning within each sector. However, all disclosures in the sample feature certain types of dependencies, including those identified in other analyses (Pickard Garcia et al., 2024; Rose et al., 2025), such as technological readiness.

Key Finding 2: Banks' transition plans include *intermediated* dependencies

The distinction between internal and external dependencies is insufficient to capture how banks deliver on their transition plans. Internal dependencies are often presented as factors within the institution's control and external dependencies as conditions in the broader operating environment. Yet this binary framing overlooks the intermediated space of interaction between banks and their clients, which relates to banks' structural role in the economy (as financial intermediaries) and the fact that their exposure to, and ability to act on, transition dependencies is channelled through relationships rather than exercised directly. Banks' decarbonisation, meanwhile, is inherently dependent on that of their customers. In the bank policies we reviewed, some banks clearly identify actions that *other* players must take to address the barriers their clients face (for example, the uptake of a certain technology). Many parts of these policies seem to suggest that factors within the bank's own business model (e.g., the availability of capital for financing such technologies) are 'external' types of dependencies.

Our analysis points to a third – **intermediated** – category of banks' transition plan dependencies. Across the disclosures we analysed, banks' sectoral decarbonisation policies are articulated largely in reference to sector- and client-specific factors, which precisely reflects banks' *intermediation* function. In contrast to a sharp division between *internal* and *external* dependencies, banks operate across a spectrum of action when they influence, support and coordinate with their clients' transition pathways via financial intermediation. **Intermediated dependencies** are those that arise through the bank's relationships with clients, counterparties and market participants – where the dependency is not fully external nor wholly within the institution's control, but is instead shaped by the behaviour, capacity and choices of entities that directly interact with the bank. As shown in Table 3.1, intermediated dependencies include: Market Collaboration and Partnerships; Client Transition Pathways and Sectoral Decarbonisation Pace; Client Data, Disclosure and Verification; and Product Innovation. Nonetheless, banks have differing spheres of influence across these categories (see Key Finding 1).

A practical illustration of the relevance of intermediated dependencies can be found in the **real estate sector**, where banks frequently identify the lack of reliable and standardised energy performance data as an external constraint on their ability to assess and finance building decarbonisation. However, while the development of harmonised energy performance certificate (EPC) frameworks requires policy coordination, banks are not merely passive recipients of this constraint. Through their lending relationships and client engagement, banks can proactively improve the availability and quality of data at the asset level (see Box 1), especially where this supports forward-looking transition risk management. Framing such factors as intermediated dependencies, therefore, helps distinguish between constraints that are genuinely outside banks' sphere of influence and those that, while not directly controlled, can be actively shaped through banks' own actions.

Intermediated dependencies can be clearly distinguished from factors where banks' influence is more limited (e.g., societal developments, the macroeconomic and geopolitical environment) or more direct (e.g., internal processes and capacities). Adequate identification and mitigation of intermediated dependencies is a critical factor in the credibility of transition plans. However, there is little clarity on what constitutes good practice in this area, with banks adopting markedly different approaches. Banks often present dependencies purely as constraints on their efforts to achieve their sectoral decarbonisation targets, providing little to no detail on the actions they have taken, or intend to take, to respond to these dependencies. This is a key challenge that emerges from our analysis of banks' approaches to dependencies.

Table 3.1. Dependency types

Category	Dependencies	Dependency type
Macroeconomic and Geopolitical Environment	Inflation; interest rates; energy prices and energy-security shocks; policy divergence across jurisdictions; geopolitical risks	External
Socio-economic and Just Transition	Societal acceptance and buy-in; affordability constraints	External
Technological Readiness and Innovation	Carbon capture, utilisation and storage; hydrogen; sustainable aviation fuels; battery tech; low-carbon feedstocks; process electrification; cleantech cost curves	External
Infrastructure	Grid capacity and interconnection; electric-vehicle charging; hydrogen pipelines; port and bunkering infrastructure	External
Policy and Regulatory	Climate policy consistency; carbon pricing; prudential guidance; green taxonomy; carbon border adjustment mechanisms and trade policy	External
Market and Price Dynamics	Commodity and carbon market pricing and volatility; green premium realisation; secondary markets' appetite for transition finance	External
Market Collaboration and Partnerships	Syndication; multilateral development bank co-financing; public-private partnerships; capital mobilisation; blended finance availability	Intermediated
Client Transition Pathways and Sectoral Decarbonisation Pace	Client capital expenditure reallocation; technology adoption; sectoral transition timelines; offtake commitments	Intermediated
Client Data, Disclosure and Verification	Scope 3 data; measurement, reporting and verification integrity; asset-level data; data consistency and comparability; certification and assurance	Intermediated
Product Innovation	Sustainability-linked loans and bonds; transition bonds; securitisation; risk appetite for transition finance	Intermediated
Risk Architecture, Modelling and Methodology	Financed-emissions data systems; scenario construction; counterparty data; physical and transition risk integration	Internal
Organisational Capability, Governance and Human Capital	Staff expertise; training; sectoral specialists; coordination across functions; remuneration alignment; accountability structures	Internal

Key Finding 3: Banks' approaches to dependencies (and their management) differ across jurisdictions

Our analysis reveals significant heterogeneity in how banks identify, disclose and address dependencies in their transition plans. Some of this variation may stem from banks facing different transition challenges and adopting different business models. However, it also reflects diverse practices in how relatively similar sets of dependencies (such as socio-economic conditions, an external dependency) are framed across institutions and supervisory regimes. Banks differ materially in *where* and *how* they present dependencies in transition-related disclosures. In some cases, dependencies are explicitly discussed as conditions or constraints on the transition plan's delivery. In many others, these dependencies are referred to implicitly (i.e. without being specifically identified as dependencies) in methodological assumptions, sector-specific discussions and forward-looking statements. As a result, two banks may identify comparable dependencies but communicate them in markedly different ways. This can be seen in areas such as reliance on client decarbonisation pathways, the availability of enabling infrastructure and the uptake of transition finance. Some banks consolidate dependencies in dedicated sections or sector narratives; others disperse them across risk disclosures, metrics and targets discussions.

The heterogeneity in banks' approaches to dependencies reflects differences between regulatory environments. Banks operating in the same jurisdiction and geography tend to display broadly comparable approaches to dependency identification and disclosure. By contrast, the differences become more pronounced across supervisory jurisdictions, including between the EU, the UK and the US. This suggests that supervisory guidance, disclosure guidance and regulatory expectations may play a role in shaping how dependencies are articulated in practice. For example, while globally applicable rules generally require the disclosure of dependencies, the EBA's Guidelines on the Management of ESG Risks and the ECB's Guidelines specifically require disclosure of dependencies and the assumptions on which banks' forward-looking approaches to climate change risk management rely, as a matter of reputational risk management. Conversely, US banks have been more cautious in disclosing factors related to climate change risk management in recent years (Fulvi and Stiroh, forthcoming).

Banks differ in how they position themselves vis-à-vis dependencies, and in the extent to which they treat these dependencies as elements to be actively managed or as purely external constraints. This distinction is particularly important for intermediated dependencies, as they are the primary channels through which banks can influence real-economy decarbonisation and, therefore, transition risks in a forward-looking manner. Some banks (especially those in the EU) incorporate intermediated dependencies into forward-looking strategies as levers for jointly pursuing transition objectives and managing portfolio risk. Such institutions then target intermediated dependencies as objects of engagement and intervention, placing client engagement and client transition readiness at the centre of their transition strategies, and clearly linking their own targets to clients' actions. From this viewpoint, dependencies are areas for strategic engagement and opportunity creation. By contrast, other banks in our sample (especially those based in the US) refer to similar dependencies more cautiously or indirectly through, for instance, assumptions about sectoral pathways or demand for low-carbon products. Here, banks recognise client decarbonisation and the broader policy environment as critical to achieving their targets, but largely treat these factors as exogenous constraints – particularly in relation to energy affordability and security – rather than as areas for proactive engagement. This implies a more passive approach to managing the transmission of transition risks and opportunities through their portfolios.

The jurisdictional distinction is particularly visible in the **energy sector**, where US banks often highlight the need to balance decarbonisation objectives with energy security and affordability considerations. Goldman Sachs (2023) notes that “financial institutions must continue to work with critical sectors ... to ensure affordable and reliable energy while new, cleaner technologies continue to develop and scale”. Similarly, JPMorgan Chase (2024) emphasises that “society ... requires affordable and secure energy to thrive.” By contrast, European banks more often articulate an active role in shaping transition pathways through financing, client engagement and product development. Barclays (2025), for instance, explicitly links its strategy to “working with clients on their transition, financing clients' transition and scaling climate technology”. Here, similar underlying dependencies, such as the pace of technological

development or sectoral transition pathways, are not only acknowledged but also operationalised as areas of intervention and opportunity.

A similar contrast emerges in the **real estate sector**. European banks frequently identify decarbonisation of the built environment as a key area of opportunity, explicitly linking client engagement and financing solutions to potential emissions reductions. Deutsche Bank (2023), for instance, highlights both the “responsibility ... to provide clients with the best possible support in the transition to more climate-friendly residential properties” and the commercial opportunity associated with energy-efficient renovation of residential properties. Crédit Agricole (Climate Transition Plan, 2024) likewise emphasises that it is “committed to supporting real estate owners in contributing to the French [emissions] target”, and that it will need to mobilise multiple stakeholders – including homeowners, public authorities and industry – to meet sectoral targets. By contrast, US banks make very limited references to real estate decarbonisation as a transition opportunity, with the sector more commonly discussed in the context of physical climate risk management rather than as a channel for financed emissions reduction. This suggests a narrower framing of dependencies, where key transition levers are less frequently articulated as areas for proactive engagement.

These jurisdictional differences in approach matter not only for the credibility of banks’ decarbonisation pathways but also for how transition plans function as risk management tools. For supervisors, this variation highlights the need to assess banks’ transition risk management by looking beyond whether they identify specific dependencies to how they intend to manage these dependencies over time. This is especially the case for intermediated dependencies: banks’ approach to managing these dependencies reflects their risk mitigation techniques.

Key Finding 4: Banks adopt a targeted response to identified dependencies

Some sectors have similar types of primary dependencies, even if they differ in their decarbonisation trajectories, technologies and regulatory landscapes. Grouping these sectors enables a clearer analysis of common dependency patterns across industries whose transition pathways hinge on similar actions (even if each sector also faces other types of dependencies). We focus on dependencies related to the Readiness and Uptake of Technology, which are the main types of dependencies identified by banks across all sectors (see Figure 3.1). The products and services banks can use to manage these dependencies (see the third column in Table 2) are explored in more detail in Key Finding 5.

Table 2. Examples of sectoral dependency types and corresponding bank responses

	Sector	Targeted dependency response
External	Heavy industry (steel; cement)	Sectoral financing plans; cleantech financing
Intermediated	Real estate; automotive	Client engagement; service and product offer (advisory)
Internal	Agriculture; residential real estate	Data collection; repurposing data across sources

External dependencies dominate heavy-industry sectors that rely on emerging technologies (aluminium, cement, chemicals, diversified mining, steel). The decarbonisation plans of companies in these sectors are highly dependent on decarbonisation levers with low technological readiness (Amin

et al., 2025). Banks, in turn, consistently describe the transition's progress as contingent on the development, deployment and cost competitiveness of these emerging technologies, with only a minority recognising the different time horizons of the dependencies they discuss. These technologies include hydrogen-based processes, carbon capture and storage, and low-emissions industrial inputs. Banks frame sectoral decarbonisation as being tied to factors beyond their direct control, including technology readiness, policy support and infrastructure buildout. As a result, banks often condition the delivery of their transition plans on system-wide developments, emphasising the limited scope for them to accelerate decarbonisation through client engagement alone. However, banks could have an active role and, indeed, a commercial opportunity in financing the development of technologies that support the decarbonisation of their high-emitting clients.

Intermediated dependencies are currently most prominent in sectors where banks have greater influence over decarbonisation outcomes. Unlike heavy industry, where technological readiness is often a core obstacle, sectors such as automotive, electricity utility and real estate already display high transition readiness (Amin et al., 2025; International Energy Agency [IEA], 2021). This means that, for these sectors, the transition hinges more strongly on banks helping their clients adopt these low-emission technologies that are already available, improve asset efficiency, and shift business models. Therefore, banks have a key role to play as a conveyor and a catalyst of the transition through their financing structures, policies, product design, engagement strategies and incentive mechanisms.

Box 3.1. Banks' role in tracking the energy performance of their mortgage portfolios and financing improvements

The value of real estate is linked to its energy performance, while energy efficiency influences mortgage performance (Guin and Korhonen, 2020). This makes EPC data integral to evaluating and managing the credit risk associated with the underlying collateral, as it is impacted by climate-related financial risks (Köhler-Ulbrich et al., 2024). However, thematic reviews by the ECB show that a significant share of banks either lack EPC data for their mortgages or rely on estimates (Finn and Rolano, 2024). This is a material gap, given that residential mortgages account for 26% of banks' total loans and advances in the euro area, or €3.8 trillion out of €4.7 trillion (ECB, 2024).

Yet banks are not passive actors when it comes to tracking and improving the energy performance of their mortgage portfolios. For more than a decade and a half, some European banks have required an EPC when providing new lending or refinancing existing loans (Finn and Rolano, 2024). European banks have developed staged engagement strategies to collect EPC data from their mortgage customers. The first stage consists of outreach programmes targeting customers who are likely to already hold an EPC for their property. The second involves offering incentives to customers, ranging from interest rate discounts to free consultations with an energy performance adviser.

As shown in Figure 3.1, banks cited policy and regulation as a key dependency in the real estate sector. On EPC ratings specifically, banks highlight the need for better access to more standardised ratings across jurisdictions (Elderson, 2024). The revised EU Energy Performance of Buildings Directive takes a step in this direction by introducing common requirements for setting up national databases on the energy performance of buildings. Establishing an EU-wide EPC database, however, will require further collaboration among policymakers.

Accurate EPC data enables banks to support improvements in buildings' energy performance. By identifying customers with lower EPC ratings, banks can anticipate clients' financing needs for home improvements and offer targeted products that incentivise renovation.

Internal dependencies appear most prominently in sectors where data and modelling intersect with heterogeneity across jurisdictions and client sizes, such as agriculture and real estate. In these sectors, banks discuss challenges related to data availability, emissions measurement, modelling capacity and asset-level granularity, which affect target-setting and constrain banks' ability to tailor their engagement strategies. However, no sector's decarbonisation hinges solely on internal dependencies. Rather, internal capabilities determine the extent to which banks can *operationalise* their transition strategies. These transition strategies diverge most in the sectors where it is most difficult to quantify

clients' emissions due to differences across jurisdictions and in client size, such as agriculture and real estate. In the agricultural sector, for instance, some banks do not set targets due to these data challenges, while others go so far as to set targets for each commodity their clients use.

Key Finding 5: Banks' product and service offerings can serve as tools for managing external and intermediated dependencies

Targeted strategies need to be developed to identify and address banks' dependencies. These factors may be seen through the lens of risk management: to consider the elements that could affect banks' ability to achieve targets and manage transition risks, it is important to create policies and processes that mitigate and manage such dependencies. The simplest way to achieve this (which will be necessary in some sectors) is to reduce exposure to the most carbon-intensive parts of their portfolios. Banks may be more inclined to take this approach in sectors where the technologies to decarbonise are not yet available cost-effectively at scale. However, divestment does not inherently eliminate emissions, as it can risk 'financial carbon leakage' and 'paper decarbonisation' (TPT, 2023; IEA, 2025).

Meanwhile, given banks' intermediated function, there is an alternative way for them to address their dependencies in the context of the financing of client decarbonisation. This could be achieved via active engagement with clients through product and service offers that support risk management and capitalise on a commercial opportunity. Such an approach is most clearly applicable to intermediated dependencies, where banks can support clients on their transition journey through targeted product offerings (see Figure 3). It is also relevant to external dependencies related to technological availability, where the development of new technologies that de-risk clients' activities is contingent on the availability of financing for investments, which may be considered risky in the short term. Through targeted engagement along a transition pathway, banks can continue to meet their clients' financing needs, help them manage dependencies (especially intermediated ones) and achieve their own and their clients' climate goals. From a supervisory perspective, tailored product and service offerings, alongside broader transition and climate financing initiatives, provide insights into the credibility of banks' transition strategies.

Several banks already integrate their sectoral decarbonisation policies into dedicated client engagement. As discussed, particularly in the EU, banks have reframed sectoral dependencies as commercial opportunities, leveraging them to support client decarbonisation while working towards their own climate targets. Crédit Agricole, for example, has developed a specific tool and dedicated funds to support farming customers in the agricultural transition, efforts to address climate risks, and renewable energy and innovation projects. As documented in the ECB's 2026 collection of good practices for climate and nature risk management, there are several other examples of institutions tying product eligibility and portfolio allocation strategies directly to sectoral decarbonisation pathways, including through sector-specific technical screening criteria for transition finance products across the heavy industry, energy, transport and real estate sectors (ECB, 2026). From a prudential perspective, these cases provide evidence of and a key benchmark in banks' approaches to proactive dependency and risk management.

However, this type of engagement-oriented approach to dependency management is only starting to develop internationally. In its annual assessment of 36 of the world's largest banks by market capitalisation and asset size, the TPI Centre found that, while most banks have frameworks to monitor clients' progress towards a low-carbon economy, only two of them disclose a clear process to ensure compliance with financing conditions and/or covenants intended to incentivise a transition in high-emitting sectors.² Such processes provide a structure for banks to actively engage with clients' progress in decarbonisation and, accordingly, with their own progress towards sectoral targets. For example, prior to onboarding clients, BNP Paribas assesses companies engaged in thermal coal mining and coal-fired power generation against its own sectoral policies. The bank also engages with existing clients who fail to meet the policies' requirements. When engagement does not lead to an

² In the 2025 assessment cycle, the TPI Centre assessed 25 out of the 29 G-SIBs. This makes their findings comparable to the assessment sample of this policy insight.

improvement, the bank will refrain from entering new business with the client and will reserve the right to reassess existing relationships in the light of their contractual agreements.

Product innovation and technology financing are further levers that banks can use to reduce the dependencies they have identified. Even with external dependencies, banks can play a proactive role by engaging with their clients, providing transition finance to hard-to-abate sectors and financing innovative technologies that support clients' decarbonisation over time (IEA, 2025). Transition finance is a particularly promising avenue in this regard, and is increasingly popular among policymakers (Transition Finance Market Review, 2024). Participation in catalytic financing can serve a dual purpose for banks: providing capital to early-stage transition technologies while simultaneously building internal expertise and developing forward-looking views on the trajectory of technologies' commercialisation. Financial institutions are establishing dedicated cleantech financing units and internal expert platforms to assess technological maturity across sectors (ECB, 2026).

3.2. Banks' role in climate-tech financing

Clean technologies are central to advancing three policy objectives that could have commercial benefits: decarbonising the economy, enhancing economic competitiveness through productivity gains and innovation, and strengthening resilience and security by reducing critical dependencies (Cleantech for Europe, 2025).

Where access to debt and private capital is constrained by concerns about business models and bankability, this hinders investments in technologies' R&D and commercial scalability. Climate- and clean-tech financing often involves early-stage companies that have only a limited revenue history, uncertain commercialisation timelines and risk profiles that sit outside conventional credit underwriting frameworks. Where banks do engage with these companies, they can directly fund activities and technologies that they identify as dependencies for meeting their own climate targets. Yet the dependency-reduction benefits of doing so accrue to the entire sector, regardless of which bank provided the financing. This creates a free-rider problem that weakens the business case for any individual bank to bear the associated risks by itself. The extent to which there is a viable business case for such engagement depends on the instrument and the degree of risk-sharing involved.

Banks that address dependencies as business opportunities can help bridge the financing gap for climate-tech companies, improving their access to debt and project financing at both the early and expansion stages. The ways in which banks can support climate-tech clients vary in ambition and risk appetite. At one end, banks may invest their own capital in technology development through dedicated targets and initiatives. At the other end, they may collaborate with multilateral development banks or government agencies, using guarantees to pool the financial risks associated with investments. Governments and policymakers can support this process by providing incentives, subsidies and guarantees that steer capital towards climate tech, allowing banks to finance such companies and technologies in commercially viable conditions.

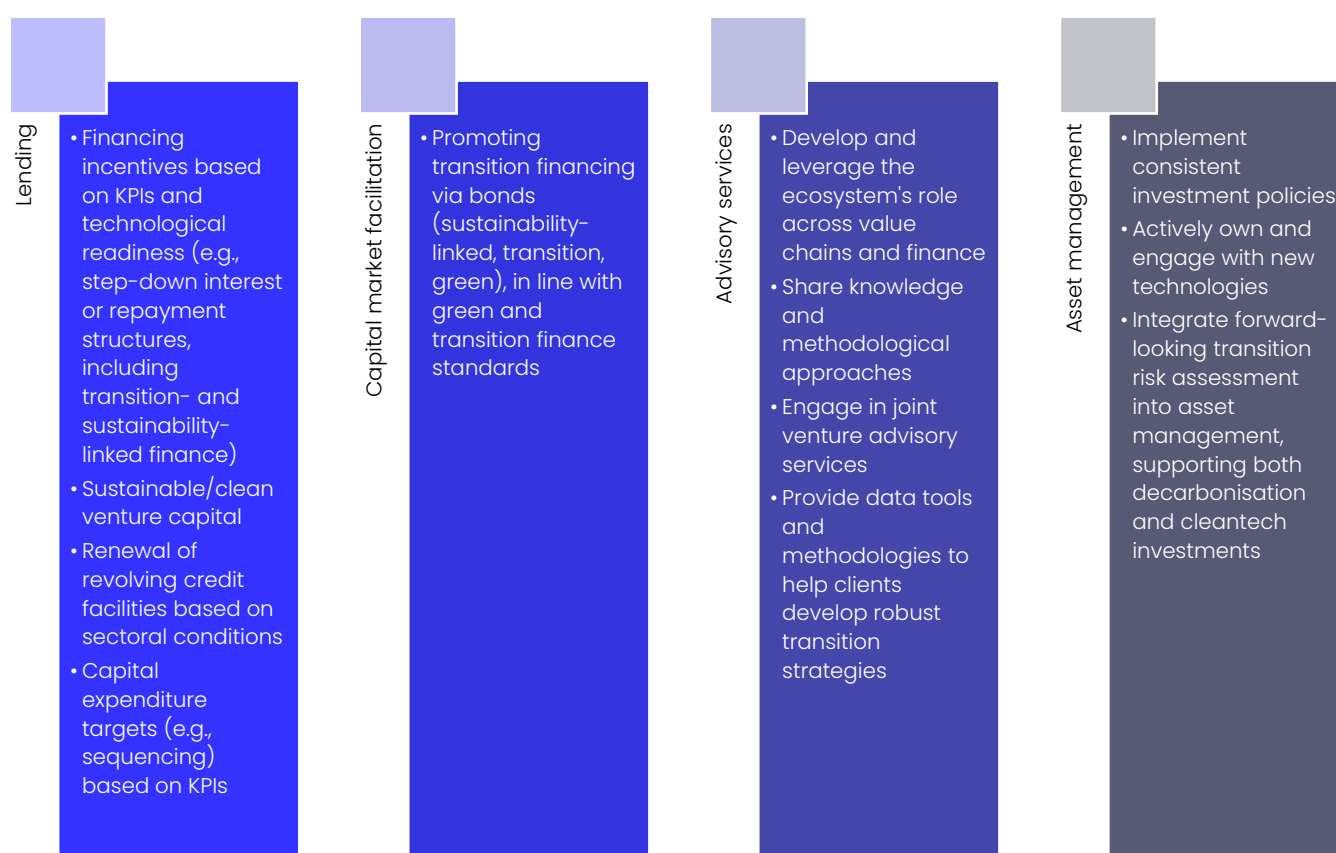
However, on a global level, there is only an underdeveloped link between banks' targets for financing climate solutions and their broader decarbonisation/transition management strategies. Among the 36 global banks that the TPI Centre surveyed for its [State of the Banking Transition 2025 report](#), most do not transparently define their financial products and services or eligible real-economy activities in the scope of their targets for financing climate solutions. Furthermore, there is little clarity on how these financing targets are designed to support the achievement of sectoral decarbonisation objectives. As a result, climate solutions targets are often reported as standalone metrics rather than as integrated components of a coherent strategy that links decarbonisation objectives to dependency management and forward-looking risk management. By establishing these links in transition plans, banks could move from implicit acknowledgement to active management of their dependencies.

There is a need for clear frameworks for governing how banks use their product and service offerings to address dependencies and manage transition risks. Banks should set concrete key performance indicators (KPIs) and conditions for clients transitioning to a low-carbon economy, and should

regularly monitor compliance. This is particularly important in the context of dependencies: as transition intermediaries, banks can work with clients to advance decarbonisation across the sectors to which they are exposed. Robust governance of transition finance products provides both a mechanism for actively managing those intermediated dependencies and a record of how these activities contribute to the bank's own transition plan. This, in turn, supports supervisory assessments of how dependency management is embedded in the bank's risk and business strategies. Banks may refer to external frameworks and guidelines to set KPIs, establish monitoring processes and governance structures, and develop a clear, rule-based process for engaging with companies in the event of non-compliance. Examples of such frameworks include UNEP FI's Transition Finance Emerging Practices (UNEP FI, 2025) and the UK's entity-level Transition Finance Guidelines (2026).

Banks can use the Transition Finance Guidelines, or other relevant policies that are applicable in jurisdictions where they operate, to assess the credibility of clients' transition plans and embed these assessments in capital allocation, risk decisions and ongoing portfolio monitoring. Product and service offerings designed to address transition plan dependencies should meet a set of basic criteria related to factors such as credibility, transparency and implementation. These offerings have co-benefits in transition risk and dependency management. Therefore, when they are of adequate quality, the cost of transition finance capital should be calibrated to reflect the relevant project-specific, financial and greenwashing risks. Such offerings should be reviewed and updated to account for the latest sectoral technological developments and shifts in the policy landscape. This would ensure that, when such policies were conceived of as dependency management, they remained aligned with evolving sectoral conditions rather than becoming anchored to outdated KPIs. Figure 5.1 sets out our proposed criteria across the four principal areas of a bank's business: lending, capital market facilitation (e.g., underwriting), advisory services and asset management.

Figure 5.1. Banks' product and service offerings to manage dependencies



Source: Authors.

4. Policy recommendations

Identifying and addressing dependencies is a key aspect of climate risk management and a precondition for establishing the credibility of a transition plan. While banks are starting to recognise dependencies in their own transition plans, there is little systemic management of such dependencies. Our findings show that to enhance the credibility of their transition plans as risk management tools, banks should clearly identify the external and intermediated dependencies that need to be assessed and mitigated to achieve their targets. Once identified, these dependencies should be integrated into target and product designs, engagement strategies, and escalation and monitoring frameworks, including in relation to their clients' transition plans. Meanwhile, there are significant gaps in how banks currently identify, disclose and manage dependencies. Banks, prudential authorities and policymakers should address these challenges in the following ways.

Banks

- Banks should consistently apply a structured dependency taxonomy across their sectoral transition strategies. They should also develop quantified approaches to dependencies that facilitate comparisons across banks and sectors.
- Banks should adequately manage the dependencies they identify via engagement strategies, financing conditions and product design. Each should be calibrated to the specific dependencies, with clear KPIs and processes for monitoring clients' progress.
- Banks should identify commercial opportunities related to intermediated and external dependencies. Sustainability-linked and transition lending, including cleantech financing, can serve as active levers for managing dependencies, provided that there are adequate governance safeguards in place. Sustainable finance commitments should be explicitly connected to identified dependencies rather than reported as standalone metrics.

Prudential authorities and policymakers

- Prudential regulators and supervisors should integrate dependency assessment into transition risk toolboxes, to assess the robustness of banks' approaches to identifying, categorising and responding to transition plan dependencies. Our taxonomy that distinguishes between external, intermediated and internal dependencies provides a structured basis for such assessment and for comparison across institutions.
- Supervisors should use their ongoing dialogue with institutions to assess how banks identify their principal intermediated dependencies that relate to client transition pathways, market collaborations, portfolio concentrations and product innovation, before articulating specific levers through which they intend to address these dependencies. Prudential assessments should evaluate whether identified dependencies are connected to credible management actions and internally consistent assumptions (see also [Smoleńska and Poensgen, 2025](#)).
- Where multiple banks identify dependencies in the same policy frameworks, data infrastructure or taxonomy designs, macroprudential authorities and other policymakers should treat these signals as indicative of regulatory or coordination gaps that require a coordinated policy response, not merely a firm-level supervisory concern.

This points to several important avenues for further research, particularly in relation to the systemic relevance of dependency management in banks' transition planning. As indicated by the sectoral lens banks adopt, there is a need to better understand the implications of banks' transition planning in relation to sectoral and national transition planning strategies, and for adequate and accountable strategies to coordinate such initiatives (Manning et al., 2024). Further research should assess the coherence of banks' disclosed dependencies against sector-specific evidence on the key barriers and levers for decarbonisation. It should also evaluate the quality of dependency disclosures, including the extent to which banks identify credible actions to address their dependencies.

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