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How bank recovery and resolution frameworks can provide a blueprint for transition planning

Policy report

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Summary

- Transition plans are rapidly emerging as important regulatory tools for banks to support the management of risks related to policy, technological and customer behaviour change in the transition to a sustainable low-carbon economy (known as 'transition risk').
- Policymakers face difficult choices regarding the definition of the regulatory framework for transition plans, their specific content and form, related supervisory powers, and coordination across borders.
- Prudential supervisors have a key role to play in ensuring the credibility of transition plans through providing direct and indirect intervention in the form of guidance without prejudicing the business-related decisions taken by financial institutions and companies.
- Banks' transition plans should reflect the transition pathways across the home and host jurisdictions in which they are active. Banks that are globally systemically important and other banks that operate across borders should therefore develop group-level strategies for how their operations align with various country-level transition strategies, reflecting nationally determined contributions (NDCs) to the Paris Agreement, energy mixes and sectoral specialisations.
- Global supervisory cooperation frameworks should facilitate a dedicated transition plan regime for cross-border banks with a view to enhancing trust and mutual understanding between relevant supervisors.
- In drawing on the parallels with post-crisis bank recovery and resolution planning frameworks, we identify several lessons for today's policymakers and regulators working on transition plan regimes for banks. These include:
  - **There is a strong business case** for transition planning, as there is for recovery planning. It can improve internal organisational knowledge and engagement with real economy clients through incorporating concerns about the dynamic policy, technological and consumer behaviour transition across different business lines.
  - **Several lessons from the integration of recovery planning into supervisory processes**, such as the need to: avoid excessive complexity; clarify the role of supervision; balance public and private disclosures of bank plans; elaborate on the cross-border dimension; and provide a strategic supervisory focus on function rather than a narrow emphasis on legal form.
  - **Enhancing cross-border supervisory cooperation** could build trust between banks and authorities, and facilitate cross-border financial stability. However, unmanaged divergence across jurisdictions could constrain cooperation and impede the exchange of information and experience.

1. Introduction

Transition plans (TPs) are rapidly emerging as an important regulatory instrument that enables prudential supervisors to overcome limitations of the existing policy toolbox (Dikau et al., 2022). In these documents, banks outline how they intend to align their strategy with net zero targets or manage transition risks, thus extending the short time horizon and supplementing the backward-looking nature of existing risk management methods with forward-looking and scenario analysis-based approaches (Täger and Dikau, 2023). Individual jurisdiction- and global-level discussions on how banks and policymakers should operationalise transition plan requirements are ongoing.

Crises are known to motivate regulatory innovations in financial regulation. Debates on 'regulatory innovations' sparked by crises often hinge on similar aspects of regulatory design, in terms of the substantive and procedural aspects of regulatory requirements imposed on banks, supervisory powers and cross-border coordination. While not originating in the financial sector in the same way as the global financial crisis of 2007–2008, the unfolding climate crisis is similarly triggering the emergence of new regulatory approaches. These seek to improve the ability of banks and supervisors to identify, mitigate and manage the short-, medium- and long-term risks associated with climate and environmental (C&E) risks at the individual institution level and the financial system as a whole. The ongoing debate around the calibration of transition plans echoes those in the early 2010s in the context of the novel approach of increasing banks' resilience by preparing a 'living will' or 'resolution and recovery plans' (RRPs) to manage the risks associated with the failure of large financial institutions.

This report draws on these parallels to identify lessons relevant for policymakers and regulators working on bank transition plans, focusing on internal bank governance, supervisory processes and cross-border coordination in the European Union.

2. Challenges in bank transition planning for prudential purposes

As the magnitude of the climate and environmental (C&E) crisis is becoming clear, banks and supervisors are increasingly concerned about its impact on financial stability. Given the financial sector relies on its real economy counterparties, states and households, such a risk-based assessment cannot be detached from broader concerns about aligning global capital flows with the investment needs of a sustainable transition.

The existing Basel microprudential framework falls short of fully integrating C&E factors as drivers of transition financial risk categories (credit, market, liquidity, operational) (Smoleńska and van 't Klooster, 2022). Some of the obstacles are conceptual, related to gaps in understanding of how physical and transition risk factors translate into financial risks. Others apply to the methodology of the approach pursued: financial risk methodologies (Loss Given Default and Probability of Default) rely largely on historical data that are not yet available in the context of C&E-related risks. Extended time horizons, the spectre of tipping points and non-linearities are sources of additional complexity (Network for Greening the Financial System [NGFS], 2024).

Transition planning and transition plans are emerging as a key forward-looking approach and tool to overcoming the limitations of the current microprudential framework (Dikau et al., 2022). Following voluntary standards, some banks already release information on how they intend to address emerging transition risks pertaining to internal (risk) governance and client/stakeholder engagement. Transition planning and transition plan requirements are deploying this tool in the context of both business strategy and risk management, including transition risk management.

On the business strategy side, transition planning seeks to ensure that banks appropriately integrate the medium-term transition and physical risks from C&E factors into their business activities. For risk management, it helps capture banks' exposure to transition as a driver of financial risks over different time horizons and under various scenarios to ensure banks implement a robust risk management strategy on an ongoing basis. Transition plans take a snapshot of transition planning in the form of a dedicated document, which reflects different policy objectives (such as financial resilience, market integrity or public policy goals) that build on different mechanisms (including market discipline, prudential and conduct regulation, and stakeholder engagement).

In the EU, a new prudential transition planning requirement is being introduced as part of the microprudential rulebook (EU Council, 2023; I4CE, 2024; European Banking Authority [EBA], 2024; Després and Miller, 2023, Nieto and Papathanassiou, 2023). The UK introduced a voluntary sector-neutral disclosure framework for transition plans (Transition Plan Taskforce [TPT], 2023), with deep dives undertaken in seven sectors, including banks, asset owners and asset managers, to provide these sectors with specific guidance (TPT, 2024). Discussion over the precise operationalisation of the new standards, as well as their possible cross-border implications (E3G, 2024), is ongoing, with work continuing within the Financial Stability Board (FSB, 2024) and Network for Greening the Financial System (NGFS, 2023).

In the prudential context, a number of difficult questions remain relating to how to operationalise transition plans as a risk governance requirement and integrate them within existing institutional structures and policy toolboxes. Heterogeneity of jurisdictional approaches adds an additional layer of complexity.

Some of the most pertinent questions relating to the operationalisation of the transition planning requirements are:

1. How should transition risk identification, assessment and mitigation be integrated throughout banks' internal governance?

2. How can the approach pursued be ensured to have a sufficient level of ambition, consistency and robustness?

3. What role should supervisors have in bank transition planning and plan assessment over different time horizons?

4. How can the requirement for transition plans be operationalised across borders?

To help identify and assess the suitability of different options, it is useful to consider how similar policy design problems regarding the content and form of new regulatory requirements were addressed in the post-2008 crisis reforms and the lessons this presents for transition planning. This is addressed in the following sections.

3. Recovery and resolution planning – a brief introduction

The global financial crisis has shown some financial institutions to be 'too big to fail', requiring the use of government support and public funds to prevent their collapse and maintain operations vital for the financial system and economy as a whole. This situation was fuelled by moral hazard and excessive risk taking in the financial sector. In 2010, the G20 financial regulation agenda therefore tasked the Financial Stability Board to develop forward-oriented resolution planning regimes in the form of so-called 'living wills' or 'recovery and resolution plans'. These frameworks seek to instil greater financial, organisational, operational and legal resilience into financial institutions, making them 'safe to fail', or at least limiting the public cost and financial stability fallout of any failure.

The FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions* (2014) recommended two types of such plans:

1. **Recovery plans (RecPs),** to be prepared by banks themselves, identify "options to restore financial strength and viability when the firm comes under severe stress" (ibid.). Supervisors may require the implementation of such arrangements as part of early intervention measures where a bank's financial situation is deteriorating.

2. **Resolution plans**, to outline specific courses of action by resolution authorities if a particular bank is no longer viable (or is 'failing or likely to fail' in the EU context).

Given their application to going concern situations and other parallels with the transition planning process, we focus on recovery plans in this report. However, we also consider resolution regimes in the context of cross-border cooperation, given that they have an impact on the ongoing operations of banks (e.g. through structural impacts and intra-group loss absorption distribution), and can provide some inspiration for cross-border coordination of transition plan supervision.

Recovery plans

RecPs not only outline the actions to be taken when a crisis strikes: they also identify critical functions that a bank provides to the economy; set out the integration of recovery planning across the corporate governance structure; and develop a suite of preparatory actions. As a result, they should help supervisors understand the risk hot-spots, paths of contagion and interlinkages throughout banking operations. Recovery planning is an active process involving implications for bank operations and risk management in the present, even if the final output is a future-oriented document.

Detailed rules outline the content of RecPs within particular jurisdictions. For example, the EU's Bank Recovery and Resolution Directive (BRRD) requires that a recovery plan includes specific arrangements to restore a firm's viability, over its own funds, liabilities and other obligations (Annex A, BRRD). Board ownership of such plans is required (Art. 5[9] BRRD). Recovery plans are required to involve several scenario-based assessments of the bank's resilience and should be updated at least annually, subject to supervisory guidance (Art. 5[2] BRRD).

Supervisors engage with banks' recovery plans with a view to assessing whether the bank's structure ensures resolvability[1] and that the plan is sufficiently robust. In the EU, the benchmark for assessment is 'reasonableness' – that is, whether the plan is reasonably likely to maintain or restore a bank's viability by being implemented in a quick and effective way once specific crisis triggers are identified (Art. 6[2] BRRD). Supervisors can require the removal of material deficiencies or impediments to a RecP's implementation.

As a last resort, such interventions may involve directing the bank to either reduce its risk profile, review strategy, or change its governance structure. In cases where a bank's financial situation is deteriorating, supervisors may require it to implement some of the measures foreseen in the recovery plan (Art. 27 BRRD). There is a dedicated process in place for group recovery planning, which considers *inter alia* the impact of the group plan on financial stability across the EU member states in which the group operates (Art. 7 BRRD).

Cross-border cooperation in recovery and resolution planning

Cross-border cooperation in recovery and resolution planning typically focuses on cases of actual cross-border bank failure – i.e. when a bank is deemed to be failing and the deployment of the special resolution procedures is considered in the public interest. There is less focus on supervisory intervention in the content of recovery plans. Arguably, however, it is in the preparatory and planning stages where the seeds of the ultimate form of cooperation in crisis are planted.

The FSB's Key Attributes outline principles concerning access to information and information-sharing between different authorities, including making provisions for 'legal gateways' for information exchange. For globally systemically important financial institutions (G-SIFIs), the establishment of institution-specific cooperation agreements (such as crisis management groups or memoranda of understanding) is recommended (for example, building on existing supervisory colleges). To aid the implementation of resolution plans, the Key Attributes make further provisions to encourage cooperative solutions and rules of competence and recognition (Davis et al., 2023), which is supported by information exchange among supervisors on an ongoing basis.

The EU has a detailed regime for cross-border recovery and resolution planning coordination, involving a delicate balancing of home and host authorities' interests through administrative procedures and intra-group requirements (EBA, 2017; Smoleńska, 2020).

[1] Resolvability means the bank under stress can be restored to viability or wound down without reliance on bailouts.

4. Parallels between recovery and transition planning

There are several parallels between recovery and transition planning by banks that are relevant for policy design in the field of transition plans.

First, both types of planning frameworks bridge different policy objectives, notwithstanding their different contexts. Recovery planning is about ensuring a bank's operational preparation for crises and availability of adequate loss absorption, with a view to limiting the impact of the bank's failure. Transition plans seek to ensure that the bank adequately adapts its business strategy and risk management procedures to the specificities of C&E risks over different time horizons, taking a strong preventive approach to sever the roots of a potential new financial crisis. Both types of planning seek to reconnect banking regulation with broader societal functions and concerns, be that public interest in financial stability, the critical functions that banks perform in providing financing to the real economy, or aligning capital flows with planetary boundaries and public transition policies. Both regulatory approaches seek to solve the implicit subsidy problem – to banks on the one hand, and to fossil fuel companies on the other – and therefore to restore adequate discipline within financial institutions. Furthermore, both TPs and RecPs bridge micro- and macro-prudential concerns (i.e. the situation of the individual bank within the broader financial stability implications). Where a RecP framework is designed to prevent the negative consequences of bank failure, it can further inform the precautionary approach to C&E risks (Chenet et al., 2021).

The second similarity relates to the type of policy tool chosen, whereby the regulators and banks are using planning as the first line of defence. The credit institution is required to develop, test and update a relevant course of action, factoring in specific assumptions about what may occur in the future (e.g. an economic downturn or disruptive policy change). However, going beyond a mere exercise, this planning process should have tangible implications for the way in which the bank does business in the present: either by ensuring its structure is recoverable through greater organisational efficiency and transparency (using an RecP); or by integrating the changes triggered by the transition across risk functions and client relationships (using a TP). In other words, both regulatory instruments are oriented towards internal governance and seek to induce organisational changes, with a view to adapting the bank's current practices to achieve long-term resilience.

Third, both TPs and RecPs address the need to introduce a strong tool that goes beyond quantitative measures. They do so on the basis of contemplating a range of scenarios relevant to the bank's specific situation and system-wide developments. While risk management measures focus largely on quantitative risk assessment models based on backward-looking data, TPs and RecPs are also 'governance arrangements', which deal with the distribution of responsibility, promotion of integrity, exchange of information, and effective oversight by senior management of the matter at hand, and at the same time create a platform for exchange with supervisors on these issues.

Fourth, both TPs and RecPs are 'living documents' that have to respond to changing conditions. Under the emerging regulatory frameworks (see Section 2), they are both required to be regularly updated, at least on an annual basis. This 'living document' quality means that such plans can be expected to be progressively refined in an iterative way. This is especially the case for C&E risks, where understanding is developing rapidly. However, this dynamism should not preclude supervisors from engaging in assessing the credibility and robustness of banks' approaches.

The fifth similarity relates to the necessity to accommodate a variety of country-specific situations along with the heterogenous business models of banks. For both RecPs and TPs, supervisors should balance the heterogeneity of banks' approaches with a common, consistent and predictable regulatory and supervisory approach (Kopp et al., 2024).

Sixth, supervisors have an important role in 'stress testing' the assumptions and approaches made by banks in their plans and challenging them within the supervisory process. In the EU, supervisors who find fault with a RecP can request changes. For prudential transition plans, the revised EU microprudential rulebook provides that supervisors shall have powers to reduce risks arising from environmental, social and governance (ESG) factors, including "through adjustments to [banks'] business strategies, governance and risk management for which a reinforcement of the targets, measures and actions included in their [prudential transition] plans… could be requested" (Art. 104[m] Capital Requirements Directive VI [CRD6]).

In the broader institutional context, both RecPs and TPs rely on coordination between different actors within the architecture of financial oversight: in the case of resolution and recovery plans, this includes the micro- and macroprudential authorities and supervisory functions, but equally those of central banks (from the monetary policy perspective) and finance ministries. This is because the assessment of such plans requires that supervisors adopt a multifaceted forward-looking perspective and develop different scenarios of future states to assess banks' resilience. Furthermore, transition planning regimes may also make provisions for cooperation with environmental agencies.

Finally, both transition and recovery planning (and resolution more broadly) are a challenge to operationalise in a cross-border context, where numerous interests have to be balanced across the scope of a banking group's activity. Cooperation in cases of cross-border bank failure is notoriously difficult, with 'every man for himself' attitudes prevailing (Davis et al., 2023). Planning processes organised around cross-border supervisory colleges serve the explicit purpose of deepening mutual understanding, aligning expectations before a crisis strikes, and giving voice to the different affected jurisdictions. Beyond this, they enable coordination and reconciliation of conflicting actions, at the very least bringing greater transparency in cases of conflict. In the context of assessing (mis)alignment of banks with transition plans for prudential purposes, importantly, banks (and supervisors) will also have to integrate the different jurisdictional perspectives on transition (EBA, 2024), which, in the EU, is facilitated by the EU Climate Law and common supervisory arrangements under the Single Supervisory Mechanism.

Table 4.1 below outlines the main similarities and differences between recovery and prudential transition plans that feature in EU legislation.

Table 4.1. Characteristics of recovery and prudential transition plans in EU legislation

	Recovery plans	Prudential transition plans
Objective	Financial stability, protection of depositors, resilience	Financial stability, alignment of capital flows with transition (prevention of the escalation of risk drivers), resilience
Nature	A tool defining a structured/robust process anchored in quantitative indicators but exceeding quantifiable measures	
Time perspective	Forward-looking	Forward-looking; a long time span and actionable design necessitate a well-structured time horizon
Activation	Activated by specific triggers	Components steer actions in the long term, while the fundamental trigger has already been activated
Supervisory assessment of plans	Assessed for 'credibility'	Assessed for 'robustness'
Relevant scenarios	Developed by supervisors	Science-based, technological change trajectories
Internal governance	Streamlining recoverability concerns throughout the bank	Streamlining/steering C&E risk management throughout the bank
Supervisory powers	Requiring the removal of material deficiencies and impediments to resolvability (Art. 6[4]-[6] BRRD)	Requiring the adjustment of business strategy, reinforcement of targets (Art. 104[m] CRD6)
Transparency	Not transparent	Partly transparent
Planning level	Individual entity, consolidated	Individual entity, group-level

Note: prepared on the basis of the 2014 BRRD and 2024 CRD6 compromise text.
Source: authors.

5. Lessons from recovery planning for transition planning

The benefits of a future-oriented 'planning' framework may be clear in theory, but the ultimate confirmation of the robustness of these approaches is visible only after a crisis has occurred. Even then, some questions can remain: for instance, how can we measure the contribution of a future-oriented planning framework to reducing financial instability? Nevertheless, the events of 2023, when the failure of several high-profile banks did not lead to widespread panic, suggest the recovery and resolution regulatory regime has brought about some positive impacts, despite shortcomings such as inconsistent application by the authorities (Dewatripont et al., 2023; FSB, 2023). Several relevant lessons can be drawn from the introduction and operationalisation of the RecP requirements that can feed into transition planning.

A strong business case for planning

While recovery planning is intrinsically a risk management tool, in the short term it also acts as a streamlining and efficiency-enhancing technique by focusing banks' attention on their internal organisation.

The complexity of the structures of international banks was starkly revealed in the aftermath of the Lehman Brothers failure. Responding to this challenge, RecPs help improve banks' internal decision-making and risk management processes, streamlining and facilitating internal information flows and management capability, including responsibilities at a group or entity level (deciding who is involved in the related decisions, when and how), and fostering internal control mechanisms. This has resulted in new efficiencies in bank structures, which the industry has recognised as a positive outcome of the new regulatory requirement. There is also a strong business case for transition planning: the exercise involves improving internal organisational knowledge and engagement with real economy clients, as well as integrating concerns about the dynamic policy, technological and consumer behaviour transition across different business lines.

Integrating planning into supervisory processes

In terms of supervisory powers, there are several lessons from the operationalisation of recovery planning regarding the scope of the requirement and assessment.

First is the need to avoid excessive complexity. The high political sensitivity around bank failure resulted in multiplication of related planning requirements. Recovery and resolution frameworks are characterised by significant complexity: the procedures within involve several authorities across the financial architecture. In the EU, plans are prepared by both the bank (in the case of recovery) and dedicated resolution authorities (for resolution plans). In the US, banks prepare a Dodd-Frank Act Plan (DFA Resolution Plan) and another plan as a covered insured depository institution (CIDI Plan), reflecting the different objectives of financial stability and depositor protection, respectively (Russo, 2019; Farina and Scipione, 2019).

Although fragmentation may have benefits in terms of reflecting different perspectives (micro and macro, related to short- and long-term time horizons), it also obscures accountability and responsibility. Where risk of fragmentation is high in the context of multiplying transition planning frameworks, the design of assessment procedures for bank transition plans should involve clear lines of responsibility and avoid the creation of multiple new structures. For example, while transition plans may serve different objectives, regulatory design should facilitate streamlining and interoperability of these documents.

Second is the need to clarify the role of supervision. The reapportioning of tasks between many authorities in the overall recovery and resolution regime, along with differences in timescales for different processes, has arguably precluded authorities from meaningfully and forcefully intervening in the recovery plans of banks, or using their early intervention powers. TP policy design should strive to overcome this limitation by clearly articulating the role of supervisors in using the TP tool with a view to addressing emerging C&E risks in a forward-looking manner. Strengthened accountability mechanisms through other agencies, government and parliaments may be part of the policy design.

Third, public and private disclosures of bank plans must be balanced. In the EU, recovery plans are confidential, while in the US they are made partly public (Russo, 2019). Transparency strengthens market discipline, enabling the comparative assessment of improvements, e.g. regarding the financial, organisational, legal and operational preparedness of banks. Given that TPs have emerged largely in the context of mandatory disclosure regimes, the bulk of their elements is likely to remain public. However, there may be specific instances where, for a variety of confidentiality constraints, specific *prudential* aspects of transition planning could be part of separate non-disclosed supervisory data. Modalities of such arrangements should be set out in relevant guidance, and global convergence on the balance between public and confidential (private) elements should be sought.

Fourth, the cross-border dimension must be elaborated. Both the FSB's Key Attributes and regimes developed in particular jurisdictions establish systems for coverage of banks' cross-border activities and exchange of information between authorities. Some regimes, such as the EU's, establish obligations for consideration of RecP activation impact on financial stability across different jurisdictions. Banks' transition plans, meanwhile, need to align with the broader transition pathways in their home and host jurisdictions. Globally systemically important banks, along with cross-border banks more broadly, should integrate country-specific transition strategies into their TPs, reflecting differing NDCs, energy mixes and sectoral specialisations, which calls for a diversity of transition pace and strategies. The overall TP framework should be sufficiently flexible to accommodate, in a proportional manner, the different operational models and business strategies of banks in a cross-border context.

Finally, it is important to have a strategic supervisory focus on function, specifically sectoral client engagement, as far as assessment is concerned, rather than a narrow emphasis on legal form – this is an important lesson learned from the evolution of RecP assessment. Transition plans seem to be already oriented towards banks' business areas, especially with the focus on sectoral transition pathways (with additional complexity where relevant taxonomies are based on business activity). However, supervisory assessment should take into account the different forms of financing and services provided by the bank in relation to that sector or counterparty as a more meaningful measure of transition risk exposure, particularly where bank transition plans are already organised around specific sectors.

Building trust: enhancing cross-border supervisory cooperation

Designing a fit-for-purpose regulatory and supervisory framework for cross-border cooperation is difficult because of information asymmetries, the costliness of setting up cross-border supervisory arrangements, and the distrust that prevails among authorities given the often unequal distribution of costs of cross-border bank failures. Here, insights can be drawn from the broader resolution regime, rather than recovery planning only. The role of fora such as colleges or specific resolution plan-oriented crisis management groups that bring together the authorities of the home country (where the bank is established) and host country (where the bank has activities) has been strengthened following the financial crisis. Such cooperation is intended to avoid disorderly cross-border failures, build mutual understanding, align expectations and develop a common vocabulary around issues such as 'resolvability'.

However, while more cooperation may facilitate cross-border bank stability, heterogeneity across jurisdictions constrains cooperation and impedes information and experience exchange (Beck et al., 2022). Although progress has been made on information exchange since the financial crisis, effective information exchange is hindered by, for example, differentiated assessment of entity significance between home and host supervisors, as found by the Bank for International Settlements (Baudino et al., 2020). Attempts to facilitate cross-border cooperation between resolution authorities, such as through *ex ante* internal 'total loss absorption capacity' requirements (known as TLAC within bank groups), have not been successful and may well have amplified the distrust leading to cross-border ringfencing. The long-term perspective of any cross-border burden sharing (which is still material in the context of the transition) may be conducive to further cooperation.

Further lessons for cross-border cooperation can be identified, in particular relating to non-discrimination and creating an expectation that authorities are aiming to avoid taking action that could trigger instability elsewhere within the group (Davis et al., 2023). In the EU, the college system essentially creates a regime rewarding cooperation with greater access to information (Smoleńska, 2020). Internationally, memoranda of understanding frame these processes while discussions in colleges vary in their degree of depth. In any case, as a first step, updates to memoranda of understanding should take place to promote international cooperation on supervisory plans.

As in the case of resolution and recovery plans, the form of coordination between supervisors will also be determined by the choices made by cross-border banks. In the case of 'living wills', the primary discussion concerns whether a cross-border bank in failure would be treated as a single entity (the so-called 'single point of entry' approach) or multiple entities ('multiple point of entry'). Most banks have chosen the latter. A similarly fragmented approach within cross-border institutions can be expected for the transition plans of cross-border banks, where, to be a meaningful measure of transition risk, such plans will have to rely on local transition pathways (policy and sectoral) at the individual jurisdiction level. This will represent an important shift away from the current practice of preparing aggregate consolidated transition plans, which often underestimate the jurisdictional idiosyncrasies. Exercises in transition planning assessment could help address shortcomings in the identification and management of cross-border macroeconomic and financial spillovers associated with mid-transition risks (Espagne et al., 2023). In this respect, several direct linkages between RecPs and TPs emerge as being highly relevant – e.g. the expectation of bailouts regarding specific stranded assets (ibid.).

6. Conclusion: a global agenda for prudential transition plans

Designing fit-for-purpose prudential transition plans at the micro and macro levels is currently a critical challenge for regulators.

At the individual jurisdiction level, policymakers are adopting different approaches to the use of such documents in their prudential and/or impact roles. The FSB is seeking to navigate this uneven terrain by examining the relevance of transition plans for financial stability (FSB, 2024).

At the cross-border level, as with recovery and resolution planning, the main remaining questions relate to how to design a regime that is equitable as well as efficient. International institutions have a crucial role to play in facilitating cross-border (home–host) cooperation over transition planning and building trust between relevant authorities. For example, these institutions can play a key role in developing memoranda of understanding between supervisors in the context of transition planning. For broader industrial/transition policy, balancing considerations of jurisdictional priorities with financial stability is needed, and this will require leadership, particularly from supervisors in jurisdictions further along the transition path.

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