

# What are the Transition Finance Guidelines and why do we need them?

## What is transition finance?

The concept of “financing the transition” refers to the mobilisation of any capital towards decarbonisation of the economy, whether labelled or unlabelled, intentional or not and which also includes financing of green technologies. Transition finance, that is, the financing of transition activities or credibly transitioning companies, is a subset of “financing the transition”. Transition finance can be focused on individual projects or defined activities (activity level) or may apply in respect of a transitioning entity.

## Why does transition finance matter?

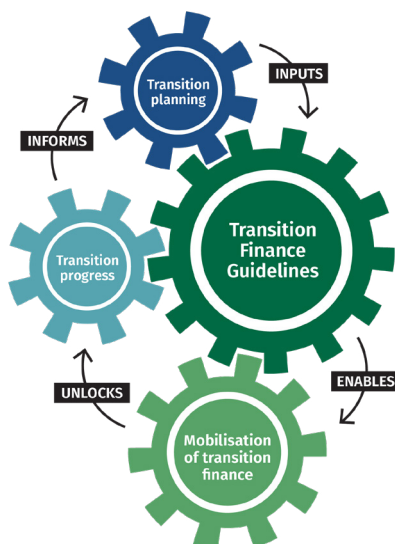
Achieving a low-carbon economy requires substantial investment. Whilst finance is flowing in mature green sector activities, but much less capital is identified as flowing into high-emitting sectors for transition purposes. Transition of high-emitting sectors is important for meeting the goals of the Paris Agreement, strengthening energy security and national resilience, and supporting the growth of a global low carbon economy. With more companies planning and starting to implement their transition, finance can be an enabler.



## What are the Transition Finance Guidelines?

The Transition Finance Council has developed this exposure draft of voluntary ‘Transition Finance Guidelines’ to enable capital providers to identify credible transition finance opportunities at entity-level.

These Guidelines are intended for unlabelled general equity and debt finance to help capital providers assess the credibility of a company’s transition planning and implementation. They focus on real economy companies, particularly in high-emitting sectors.



## What are the objectives of the Guidelines?

The Guidelines may be used as a tool to qualify credible transitioning companies for inclusion in transition themed investment funds and other products as well as informing transition finance frameworks and other transition assessment processes. They are anchored to the Paris Agreement average temperature goal.

The objectives of the Guidelines are to:

- **support capital providers** by defining expectations for credible Paris compatible transition planning and delivery, helping reduce greenwashing and transition risk;
- **serve as an external reference** point for designing transition themed products or funds;
- **support qualification of unlabelled general equity and debt** finance as entity-level transition finance; and
- **clarify for companies** the expected areas of focus of capital providers.

For the Council’s other outputs, such as *Sector Transition Plans: The Finance Playbook* and *Scaling Transition Finance: Four policy briefs for scaling transition finance flows*, see [here](#).



## How should these Guidelines be used?

The Transition Finance Guidelines provide a common tool capable of application across geographies and sectors. They work best for entities that have set Paris aligned interim targets and have integrated action to meet these targets into their strategy, with or without a separate transition plan. While the Guidelines align to the Paris Agreement common average temperature goal, they

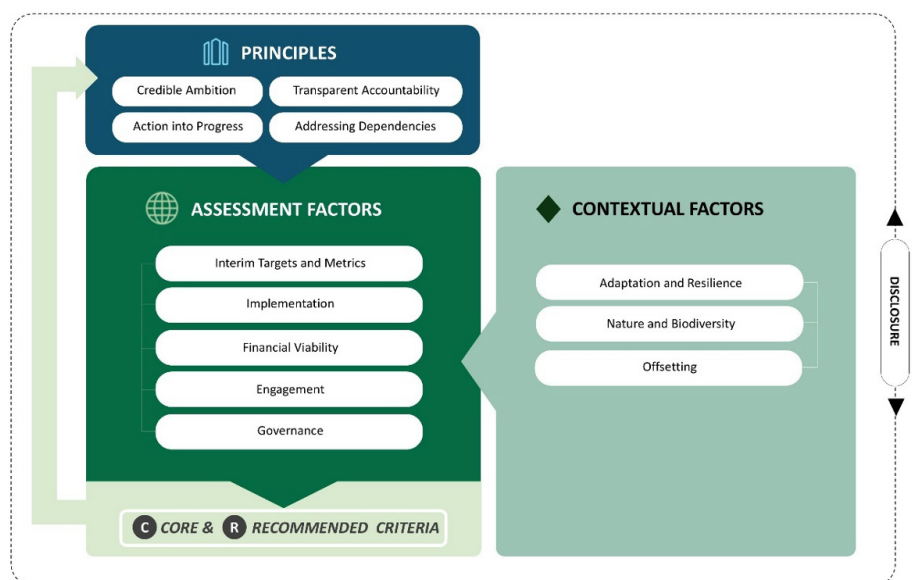
also acknowledge the longer timelines available under the Paris Agreement for EMDE decarbonisation. They leverage existing standards, instruments and models from the sustainable finance landscape to define credibility. Popular disclosure frameworks (CDP, IFRS S2, TPT) can evidence alignment with the Guidelines.



## The structure of the Guidelines: Principles and Factors

*Structure of the Transition Finance Guidelines – Principle and Assessment Factors*

The Guidelines contain four '**Principles**', which are cross-cutting dimensions of credibility and the '**Assessment Factors**', which evidence that the Principles hold true. The Assessment Factors are made up of 15 Core and 8 Recommended (additional) criteria. If the Core Criteria are satisfied this shows the Principles have been met. Additional Contextual Factors such as nature or resilience can be considered by the capital provider if material or relevant to investment objectives or the capital providers policies.



The Guidelines aim to be:

- **Voluntary:** a voluntary framework capable of use directly or as an input to an institution's own frameworks, products or processes.
- **Proportionate:** designed in a way which allows the flexibility necessary to address the forward-looking nature of transition planning and non-linear nature of progress.
- **Practical:** a granular framework for assessing ambition, feasibility and progress.

Alongside the Guidelines the Council has also released an **Implementation Handbook to support entities in applying the Guidelines**. This includes case studies from different contexts, additional high-level guidance for different asset classes, as well as a set of illustrative examples based on testing by three real economy corporates.



## What's next?

As the Transition Finance Council moves into its second year, the Council will continue to seek feedback both domestically and internationally to refine this exposure draft of the Guidelines.

Visit our [website](#) or reach us at [transitionfinancecouncil@cityoflondon.gov.uk](mailto:transitionfinancecouncil@cityoflondon.gov.uk) to help shape a market led solution to scaling transition finance.

