Establishing credibility and integrity in transition finance

A discussion paper from the Transition Finance Council

June 2025

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Introduction

The Transition Finance Council (the Council) was launched in February 2025 by the City of London Corporation and HM Government. It aims to build on the foundation of the Transition Finance Market Review (TFMR)[1] and establish the UK as the global hub for raising and deploying transition finance.

This discussion paper presents the Council's initial work on establishing credibility and integrity in transition finance by defining voluntary high-level Guidelines to support the market. These build on the TFMR and aim to support a wide range of users, including policymakers, industry, and the financial sector.[2]

The Guidelines aim to complement existing frameworks and international standards. By establishing a clear, credible foundation for scaling transition finance globally, this work seeks to boost investor confidence and enable real-world emissions reductions.

The Council will invite formal feedback on this work in two upcoming consultations planned for August and November 2025. The questions highlighted at the end of this document give an initial indication of what we will be seeking feedback on.

We are grateful to Council working group members for their valuable input into the development of this discussion paper. The views expressed here do not necessarily reflect those of individual members or the organisations they represent.

Structure of the paper

This discussion paper is divided into two parts.

Part 1 introduces the role of the Council and the background to its work relating to credibility and integrity.

Part 2 sets out the Council's current thinking on setting Guidelines for establishing credibility and integrity in transition finance at entity-level[3], exploring the opportunities and challenges involved. It:

1. **Sets out the relevance and potential use cases for the Guidelines;**
2. **Explains the structure and key issues under consideration entity-level;**
3. **Seeks early feedback ahead of formal consultation later in the year.**

[1] The Transition Finance Market Review was published in October 2024, please see here for the full review.

[2] To avoid confusion, what were originally the TFMR 'Guidelines' (see Appendix B for more detail) will be evolved to be called 'Principles'. When we now refer to 'Guidelines' in this discussion paper, we are referring to the 'Principles', 'Factors' and the supporting implementation guidance together as a whole. For more information on 'Principles' and 'Factors' and how these build from the TFMR output please see p7 of this discussion paper.

[3] Entity-level transition finance refers to financing directed toward a company or other legal entity based on its overall transition strategy and alignment with credible transition pathways. This contrasts with activity-level finance, which targets specific projects, assets, or technologies that contribute to emissions reductions. Entity-level finance assesses the credibility of the organisation's whole-of-business transition, including governance, capital allocation, and operational plans.

Part 1

Introduction to the Transition Finance Council

The Council was co-launched by the City of London Corporation and HM Government in February 2025. The purpose of the Council is to drive forward the roadmap and recommendations set out in the Transition Finance Market Review and to establish the UK as a global hub for raising and deploying transition finance.

The Council includes representation from the financial and professional services sectors, real economy, government, regulators, standard setters, academia and civil society.

The Council is led by Chair the Rt Hon Lord Alok Sharma KCMG, and Deputy Chair Councillor Irem Yerdelen, Lead Member for Sustainable Finance at the City Corporation.

The Council operates three working groups which advance its objectives, delivering targeted outputs in the following areas:

1. **Credibility and Integrity:** Developing and consulting on transition finance Guidelines which promote credibility and integrity in the transition finance market.[4]

2. **Pathways, Policies and Governance:** Developing best practice for sector transition roadmaps which unlock investment and promote the UK's competitive position.

3. **Scaling Transition Finance:** Examining real-world applications of transition finance and identifying practical solutions that will support scaling of transition finance flows.

This paper forms part of the Transition Finance Council's broader commitment to transparency and collaboration. Under it's terms of reference, the Council will report at six-monthly intervals on its activities and the progress the UK has made in implementing the recommendations of the TFMR. Its first progress report is due in September 2025.

The Council's main functions are:

- **Monitor and drive implementation of the TFMR's recommendations**
- **Support transition finance capacity building and engagement across a breadth of UK and international stakeholders**
- **Convene working groups to progress priority areas in accordance with the Council's objectives**

[4] Credibility and Integrity is the focus of this discussion paper, although the work is complementary to and supported by the Council's other working groups.

Building from the TFMR's work on Credibility and Integrity

The Council's work on establishing credibility and integrity builds on the foundational thinking put forward by the TFMR in 2024. The TFMR proposed two interlocking voluntary frameworks to address credibility of transition finance:

1. A Transition Finance Classification System (TFCS) that builds on the Glasgow Financial Alliance for Net Zero (GFANZ) (see diagram below and Appendix A for more detail)

2. Five TFMR Guidelines and over a dozen Factors to support consideration of what constitutes credible transition finance at the activity and entity-level (please see Part 2 below for what these were and how we are building on them and Appendix B and Appendix C for the detail of how these were presented in TFMR)

These outputs define what is credible by reference to the Paris Agreement's average global temperature goal[5] and the principle of "common but differentiated responsibilities"[6] (CBDR), acknowledging that a proportionate approach is required for different markets. Expectations are also bounded by what is technologically and commercially feasible.

The TFMR recommended that the Council continue to finalise the Guidelines for use by the market. The TFMR had primarily focused on activity level finance, and its engagements had been limited to credit institutions and civil society.

Categories of transition finance	Activity-Level	Entity-level
Climate solutions and enablers	Financing climate solutions activities and activities which enable climate solutions	Financing 'pure play' companies, where 90% (with a minimum expected threshold of 70%) of revenues or assets within a portfolio are derived from climate solutions and enabling activities
Aligning and aligned[7]	Activities which support an entity aligning to a credible transition pathway	Financing entities that are aligning/aligned and result in abatement in line with a credible transition strategy
Early retirement of high-emitting assets	Financing activities which lead to early retirement of high-emitting assets which would otherwise continue to produce emissions	

[5] "Holding the increase in the global average temperature to well below 2 degrees above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 degrees above pre-industrial levels" Article 2, Paragraph 1(a).
[6] Common but differentiated responsibilities refers to Article 2, Paragraph 2 of the Paris Agreement which states "This Agreement will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances."
[7] Meaning an activity or entity that is already aligned to, or is committed to aligning to, a pathway or strategy compatible with the Paris Agreement's average global temperature goal.

Building from the TFMR, the Council will develop a refined and expanded set of voluntary credibility Guidelines for transition finance. These will support broader market application and reflect insights from wider consultation. The overarching aim is to:

1. Leverage the expertise from different markets to develop common and practical Guidelines
2. Increase transparency and consistency through market-led adoption
3. Strengthen confidence in and scale up transition finance across the global market

The Council's longer-term ambition is that these Guidelines become a global benchmark for classifying credible transition finance. Rather than reinventing existing standards, the Guidelines aim to bring greater coherence across existing regulations and frameworks, responding to strong market demand for clarity on what constitutes transition finance.

Engagement and feedback to the Council to date has suggested that the greatest value would come from building on the TFMR outputs to **more directly address transition finance at entity-level.**[8] Global finance flows much more at entity than project level and offers an area for greatest potential real-world impact; however, entity-level transition finance at present is relatively underdeveloped.[9] Establishing credibility at entity level can also enhance confidence in financing at activity or project level.

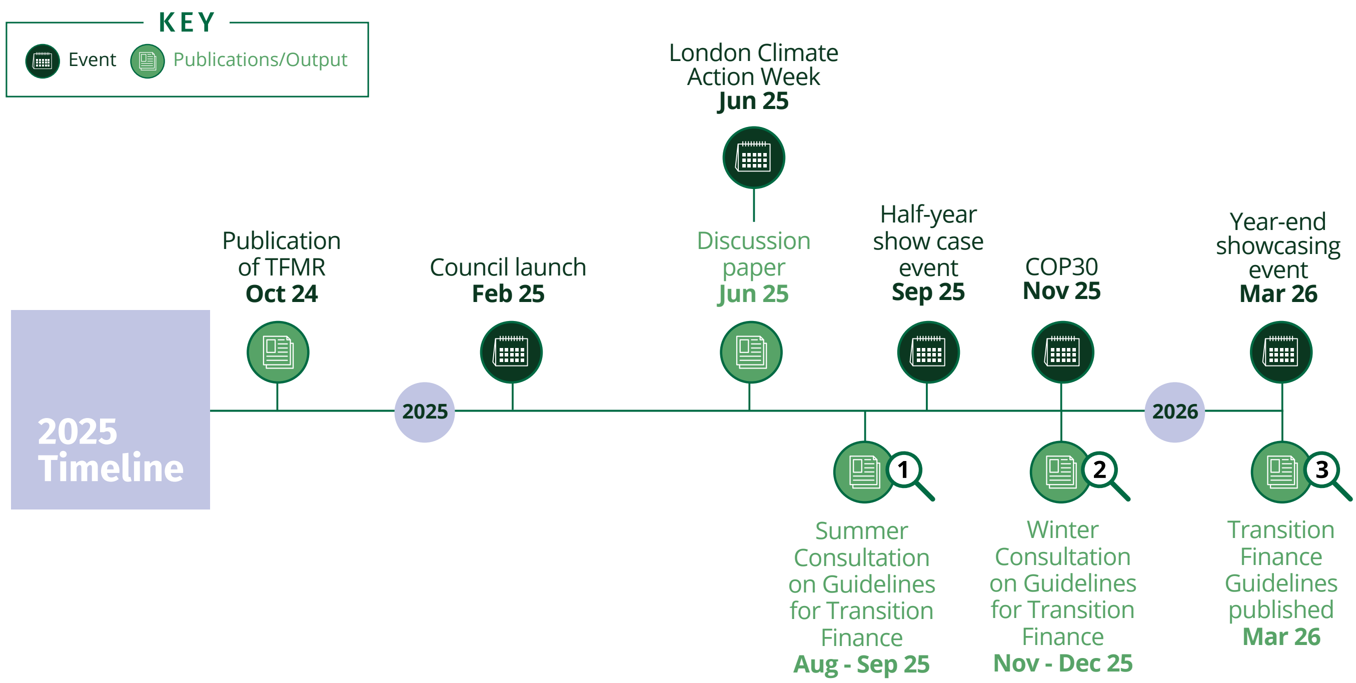
This discussion paper will therefore focus on use cases and considerations for entity-level guidance.

[8] The TFMR heard from various stakeholders that the greatest potential for scaling transition finance lies with meeting entity-level demand. See page 29 of the TFMR which discusses the difficulty of application to entity-level.

[9] Activity level transition finance benefits from established green bond frameworks, and other use-of-proceeds focused guidance including the development of green and transition taxonomies.

Timeline for development of the Guidelines

In the first year the Council's work on credibility and integrity will aim to follow the timeline below, with two key engagement periods in summer and winter.**The scope and depth of each consultation may be subject to adjustment based on available resources.*[10]



1

Summer Consultation on Guidelines for Transition Finance (Aug - Sep 25):

A preliminary consultation which will seek feedback on:

- Detailed Guidelines and interpretive guidance focused on entity-level investment in aligned/aligning entities
- Initial questions on an approach to entity-level investment on climate solutions and enablers

2

Winter Consultation (Nov - Dec 25):

A second consultation will focus on engaging international stakeholders[11] and will seek feedback on the full Guidelines including:

- Updated Guidelines for aligned/aligning entities since the Summer Consultation
- Detailed Guidelines for entity-level investment in climate solutions and enablers
- Whether there are any gaps in existing activity-level guidance

3

Transition Finance guidance published (March 26):

Updated Guidelines will be published, taking into account the feedback from both the Summer and Winter Consultation.

This is a rapidly moving area, and we acknowledge that even after final publication in March 2026, these Guidelines will continue to require periodic update, taking account of wider market developments and evolving practice.

[10] The Council's work is unlikely to directly expand existing guidance on early asset retirement as the weight of expertise in this area sits in other parts of the global market. Most commonly in Asia, where there would be working groups better place to address this issue.
[11] Through its launch at COP30.

Part 2

Use cases for transition finance Guidelines

Globally operable Guidelines that guide thinking on what can credibly be classified as transition finance are likely to have a wide range of uses. Examples include:

Investors

- Guide capital allocation, informing inclusion and exclusion criteria
- Increase investor leverage when seeking evidence of progress by investees
- Build confidence in transition finance as an investment theme and reduce greenwashing risk by providing a globally applicable framework

Credit providers

- Help credit institutions assess opportunities for transition-related finance
- Provide external market guardrails for institutions creating their own transition finance frameworks and calculating performance against sustainable finance targets

Insurance businesses

- Inform methodologies for insurance sector institutions to assess transition opportunities and risks
- Help assessing opportunities for inclusion of insurance products in transition related financing

Real economy corporates

- Improve access to capital required for transition and reduce frictional transaction costs
- Improve awareness of market expectations on transition strategy and delivery, including a focus on real-world decarbonisation impact

Regulators

- Enhance market integrity with market led guidance that is consistent with regulatory disclosure and label regimes
- Offer opportunity to create a feedback loop to align market and regulatory approaches

Public Financial Institutions (PFIs) and Multilateral Development Banks (MDBs)

- Help PFIs assess and grow opportunities to participate in transactions relating to transition relevant assets and entities
- Support collaboration with private sector institutions through broad alignment on transition finance principles

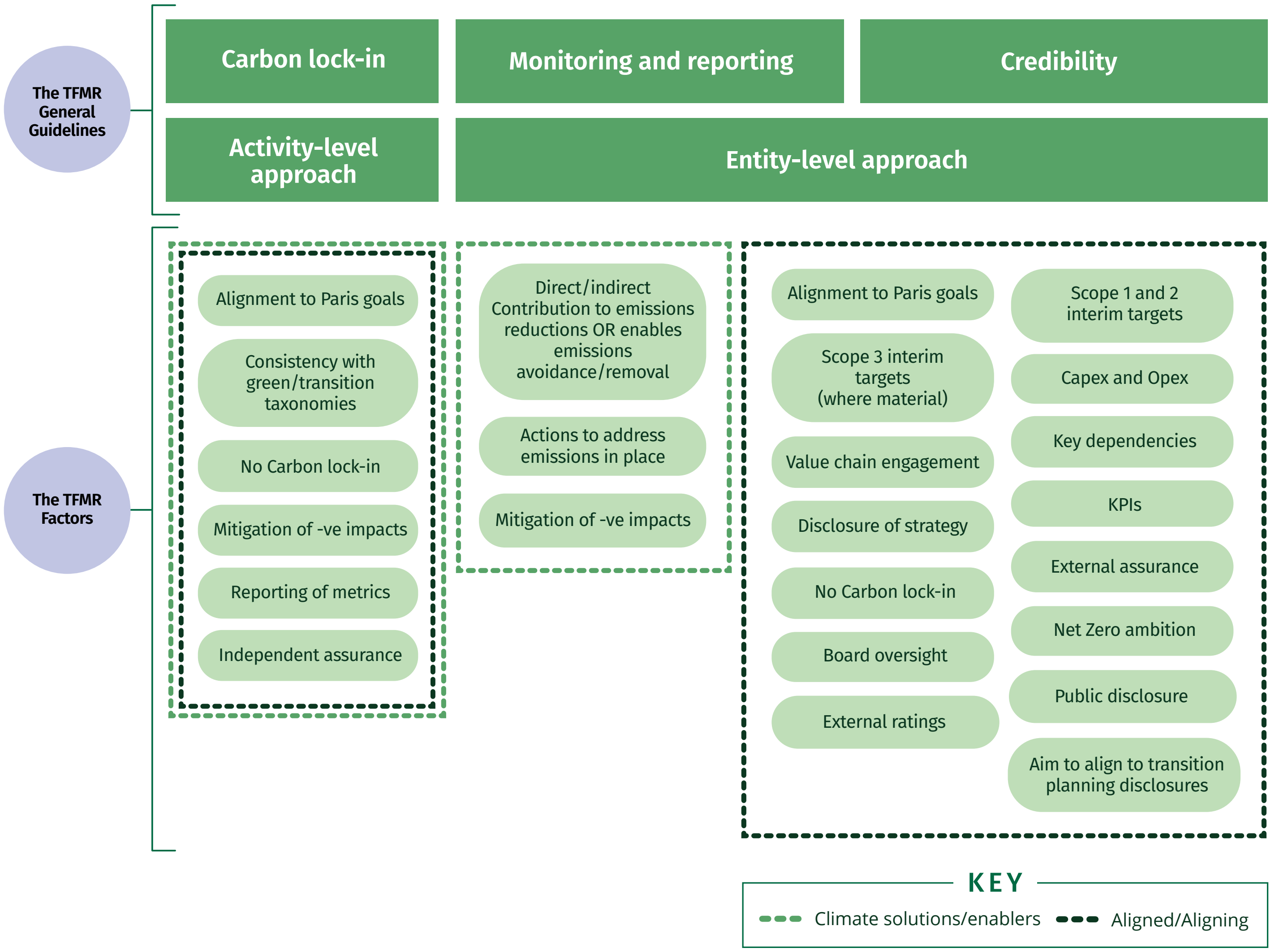
Governments and international institutions

- Support measurement of capital flows and year-on-year trends, including ratio of public: private finance achieved
- Offer evidence of market engagement in relation to real-world decarbonisation impact; highlighting real absolute emissions reductions
- Support the mobilization and tracking of capital flows and year-on-year

Current considerations in developing Guidelines for entity-level application

Explaining 'Principles' and 'Factors'

The graphic below summarises where the Council is starting from using the outputs from TFMR.[12] The development of these outputs were much more focused on the application for activity -evel finance, with only a high-level assessment done at entity-level



Therefore, in its initial work, the Council has been considering how to reshape this output for its application to entity-level investment.

To retain the broad applicability of the output, we don't consider 'entities' to be limited to just corporate entities. However, we acknowledge some interpretive guidance may need to be developed in relation to financial institutions, real asset entities and sovereigns.

We propose that the new Credibility Guidelines will be a combination of 'Factors' and 'Principles'. We will develop the TFMR General Guidelines into 'Principles' relating to credibility, transparency, governance, dependencies and delivery. We intend these to be used at a high level for assessing the credibility of an entity's commitment to transition.

We also propose to review and update the TFMR Factors which we anticipate being used for more practical evidence-based assessment, within the guardrails of the higher-level Principles.

[12] For more information on the TFMR Guidelines and Factors originally proposed within TFMR see Appendix B and C.

We propose the Factors are divided into two categories:

- **Universal factors** that would apply to all transition related finance, acting as a base threshold. These factors should focus on an entity's commitment to transition rather than the context it comes from. For example, universal factors should support the flow of finance towards transitioning entities in hard to abate sectors or emerging markets rather than exclude them. These factors are likely to weigh towards near term strategy, implementation levers, governance and reporting.

- **Contextual factors** that could apply, depending on:
  • the **materiality of the issue** to the entity (for example, Scope 3 emissions strategy, resilience to climate risk, social or just transition factors, nature risks etc), or
  • the policy **environment in which it operates** (for this reason, large and listed entities in developed markets would be expected to address a greater number of contextual factors compared with small medium enterprises (SMEs) and companies headquartered in emerging market and developing economy (EMDE) countries

We are also working on interpretive guidance to address different asset classes, primary and secondary market transactions, and what happens when transition does not occur as expected.

Material issues for consideration

This section sets out current thinking on some of the most material points of discussion in the Council's meetings to date.

Guidelines for a global context

The Transition Finance Classification System (see Appendix A for more detail) uses "**aligned**" or "**aligning**" to mean an entity that is already aligned to, or is committed to aligning to, a pathway or strategy compatible with the Paris Agreement's average global temperature goal. This can be shown using existing and incoming regulatory and market frameworks and methodologies consistent with this global goal (taxonomies, pathways, Nationally Determined Contributions, science-based targets etc).

However, it is also critical for the guidelines to incorporate the principle of common but differentiated responsibilities as transition expectations of entities whose home markets are EMDE need to be proportionate or may need to show flexibility in the timeline for emission reduction targets. This is also true for SMEs and growth companies.

Therefore, the Principles and the Factors should enable finance flowing to entities in these contexts.

Prioritising the shorter term

In practice, many entities will struggle to articulate how they could reach net zero in the long-term. It is more realistic to develop a strategy working towards a shorter-term goal. This strategy can be assessed for credibility of ambition by reference to what is appropriate progress for that entity's context. For example, a Paris Agreement compatible pathway or taxonomy appropriate to the sector and geography may be used to benchmark credibility in respect of this shorter-term ambition. What is a credible strategy will evolve as technologies and understanding of their use cases and limitations develop, and as policy, markets and social drivers change. Decisions to invest should be fairly considered by reference to market maturity, practice and information reasonably available to the investor at the time of the decision. A reasonable approach is to focus on what is both commercially and technologically viable at the time that capital is deployed and to expect entities to update processes periodically.

Therefore, the Principles and Factors should prioritize shorter-term targets and implementation over long term ambition.

Managing dependencies

Climate transition strategies or plans do not exist in isolation. Success in delivering the strategy and making progress against decarbonisation targets depends not just on the action of the transitioning entity but on numerous external dependencies. They can include national policy, technology readiness, availability of infrastructure, customer demand and supply chain dependencies.

Dependencies specific to the sector and geography an entity is in will also have a material impact on how the Principles and Factors are applied and should be considered throughout assessment.

Therefore, the guidance should reflect that it is important for both the investor and the entity to have a realistic understanding throughout the period of investment of the dependencies on which delivery of the transition strategy is contingent. Additionally, whether the entity's wider approach, including its engagement strategy is directed towards mitigating its dependencies. In some cases, these elements may well be relevant factors in decision making where material transition failures arise (see section on transition failures below).

Demonstrating progress

Evidence of implementation and progress is particularly important for entity-level investment. Proof points are necessary, noting that decarbonisation progress is rarely linear. Where roadblocks or delays are encountered, information on these is also relevant for investors. Emissions may not go down in the short term as implementation of transition action takes time. This should be acceptable for investors and policy makers provided the strategy is robust, progress is made in the round and execution of it is monitored and reported upon.

Failure to transition

Common criticisms of transition finance are that it can expose investors or lenders to an entity's failure or decision not to perform and to outcomes where there is no real-world decarbonisation impact. This is a particular issue to address in financing for aligning entities.

Consideration of when finance or investments stop being considered as credibly transition-focused is proposed for inclusion in interpretative guidance to support the Guidelines. A balanced approach is necessary: for the classification to have value, declassification must be a potential outcome. Equally, investors and investees will have a common interest in avoiding fine triggers for declassification particularly since this may drive disinvestment in some instances.

Failure to implement the actions necessary to demonstrate transition may deserve harsher treatment than delivery failures arising because of external dependencies where the entity has tried to mitigate their effects.

Interpretive guidance by asset class

To ensure materials are useful across different markets and asset classes, there is support for developing brief interpretive guidance by asset class, drawing on the experience of Council members and providing worked examples where possible. The Council is also building a range of case studies to support the Guidelines.

Interoperability with regulatory frameworks and market standards

Ensuring that the Guidelines we are putting complement existing regulation and international standards will support effective market functioning and ease of use. The Guidelines and Factors we are putting forward should be capable of working alongside and not be inconsistent with the UK's Sustainable Disclosure Requirements (SDR) or the UK Sustainable Improvers label.[13]

There is also real benefit to be gained from engaging with the upcoming EU Sustainable Finance Disclosure Regulation (SFDR) review and identifying key voluntary frameworks to check the Guidelines can sit alongside important regulatory and market frameworks (including but not limited to ISSB, LMA, GRI, CBI, ICMA, GFANZ[14]).

To enhance interoperability, the Council will continue to engage with UK regulators and key market standard setters. We will also seek to ensure colleagues in other global markets are aware of our work and can engage with these ideas and participate in planned consultations.

13 *Sustainability Disclosure Requirements (SDR) and investment labels*, Policy Statement PS23/16, November 2023. Available at: https://www.fca.org.uk/publication/policy/ps23-16.pdf. Sustainable Improvers label is defined on p30-34.
14 International Sustainability Standards Board (ISSB), Loan Market Association (LMA), Global Reporting Initiative (GRI), Climate Bonds Initiative (CBI), The International Capital Markes Association (ICMA), The Glasgow Financial Alliance for Net Zero (GFANZ).

ISSB standards and transition plan disclosure frameworks

There is an obvious connection between credible transition planning and credible transition finance that consideration of the ISSB and its forthcoming transition plan materials merits specific discussion. Much of the thinking about transition of entities has arisen in the context of developing transition plan disclosure frameworks, such as the frameworks published by the Transition Plan Taskforce (TPT) and GFANZ.

However, credibility Guidelines for transition finance and transition plan disclosure frameworks perform different functions. The Guidelines require a minimum benchmark of evidence to prove credibility, i.e., the strength of ambition to transition, the existence of a credible strategy to deliver and evidence of effective implementation. By contrast, the TPT Disclosure Framework does not set a normative benchmark, it provides a structured set of recommendations that help an entity articulate its transition to its stakeholders. For example, an unambitious transition plan could be reported in line with the TPT Framework, but not meet the thresholds required to qualify the entity for accessing transition finance.

In 2024, the IFRS Foundation adopted responsibility for the disclosure-specific materials of the TPT. It is expected that ISSB education materials on transition plans, based on the work of the TPT, will be published in Summer 2025. Wider adoption of the TPT disclosure framework through the IFRS sustainability standards will over time assist investors who are trying to obtain and assess information to determine whether companies are transitioning credibly.

Though the UK led the creation of the TPT materials and contributed substantially to the IFRS standards, updating of UK disclosure requirements has been delayed. For so long as policy is unclear, transition plan disclosure will remain immature. The aim is for the Guidelines to be used in conjunction with available transition plan disclosures where possible in supporting capital providers get the information they need to assess an entity's transition. This is the most efficient option for scaling transition finance with credibility and integrity.

Though we recognise that different markets will move at different speeds, this does not stop current activity and the need to grow the transition finance market as disclosure practice improves. While UK and European markets catch up with early adopters in Australasia and elsewhere, the Guidelines will offer a framework to support investor due diligence, engagement and investment processes.

Questions we are looking to address through future engagement

- *What Factors should be universal to classifying transition finance? Recognising the number and scope of such factors must be reasonably small for the distinction to be effective.*
- *Are the tests for contextual factors appropriately focused on materiality and policy environment? Are other triggers for contextual factors needed?*
- *How should an entity be expected to assess and disclose the critical dependencies of its transition strategy?*
- *How should the guidance measure credible implementation and impact that is not linear but can be assessed over an investment cycle?*
- *Do you think different causes of failure to transition should be capable of attracting different treatment (e.g. reasonable time to remedy for no fault delays)?*

Why get involved

Developing the role of the UK as a hub for high quality transition finance is a driving purpose of the Council and its working groups.

Development of guidelines to "level set" the market's understanding of what constitutes credible transition finance was suggested to TFMR in its market engagements. The Council's cross industry membership enables the development of these Guidelines for international consultation.

Our work depends on time generously given by working group members and the input and support of companies, firms, standard setters, ratings agencies, universities and civil society organisations, governments and regulators.

Through our discussions at London Climate Action Week and elsewhere, we hope to get inputs from many organisations that will inform our consultation processes later in the year. All these contacts will help us to refine the final form Guidelines. Please participate in our Summer and Winter consultations if you can.

Appendices

Appendix A – A Transition Finance Classification System *(TFMR p27)*

Illustrative categories of transition finance	Description	Type of finance	Alignment to GFANZ	Illustrative examples of activities/ entities which may be financed within each category
(1) Climate solutions and enablers (activity level)	Financing climate solutions activities and activities which enable climate solutions	Specific purpose ACTIVITY LEVEL	Climate solutions	• Generation and storage of renewable and low carbon fuels and CO_2e e.g. - sustainably sourced biofuels, - Sustainable Aviation Fuel (SAF), - low carbon hydrogen, and - nuclear. • Permanent carbon removals and Carbon Capture Utilisation and Storage (CCUS) • Production and sales of products intended to substitute for existing high carbon products e.g. bamboo packaging *and* • Components for delivery of Category 1 activities e.g. electrolyser components, transmission and distribution of renewables and low carbon fuels • Production and sales of goods and services intended to support delivery of other Category 1 activities e.g. specialty chemicals, critical minerals and metals
(2) Climate solutions and enablers (entity-level)	Financing 'pure play' companies, where 90% (with a minimum expected threshold of 70%) of revenues or assets within a portfolio are derived from activities within Category 1, as classified by the supporting Guidelines	General purpose ENTITY LEVEL	Climate solutions	Financing companies where 90%, or a minimum expected threshold of 70% of revenues are derived from activities within Category 1, as classified by the supporting Guidelines
(3) Activities to support alignment (activity-level)	Financing activities which support an entity in aligning to a credible decarbonisation pathway as defined in the supporting Guidelines	Specific purpose ACTIVITY LEVEL	Aligning	• Electrification of equipment and industrial processes • Lower carbon retrofit of buildings, transport, machinery and infrastructure • Lower carbon efficiencies in equipment, processes and operations
(4) Entities which are aligned/ aligning (entity-level)	Financing entities that are aligning/ aligned and result in abatement in line with a credible transition strategy as defined in the supporting Guidelines	Specific purpose now, Moving to general purpose ENTITY LEVEL	Aligned / Aligning	'Pragmatic prioritisation' of higher emitting sectors, the decarbonisation of which drive abatement e.g. • Steel • Cement • Aviation • Shipping • Agriculture • Energy • Real Estate
(5) Early retirement of high-emitting assets	Financing activities which lead to early retirement of high-emitting assets which would otherwise continue to produce emissions	Specific purpose ACTIVITY LEVEL	Managed phaseout	• Buyout and early wind-down of coal plants • Early phaseout of coal-fired steelmaking facilities • Repurposing of coal plants (e.g. REPOWER)

Appendix B – General Guidelines for classification of Transition Finance *(TFMR p30)*

1. **Activity-level approach:** Transition finance at activity-level may be provided to activities that are credible (as defined in principle 3 below) and: a. fall within the definition of transition activities, as described in Categories 1, 3 and 5 of the TFCS; and b. have been subject to appropriate consideration for their contribution to a whole-of-economy transition and the avoidance or mitigation of environmental and social risks and impacts, including just transition factors.

2. **Entity-level approach:** Transition finance at entity-level may be provided to entities that fall within the TFCS's definition of transitioning entities, as described in Category 2 and potentially, at the institution's discretion, Category 4; and are in the process of implementing a credible entity-level strategy to decarbonise and contribute to a whole-of-economy transition, with appropriate consideration for the avoidance or mitigation of environmental and social risks and impacts, including just transition factors.

3. **Credible:** What is a credible activity or strategy should be considered by reference to the Paris Agreement's goal of "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above preindustrial levels" and the principle of common but differentiated responsibilities.

   a. What is credible should be considered by reference to Nationally Determined Contributions (NDCs), regional, national or sector pathways, taxonomies aligned or compatible with the Paris Agreement's goal, and science-based targets. Pathways and technology roadmaps compatible with 1.5°C should be used where available.

   b. Additional consideration and proportionate flexibilities may be necessary for EMDEs to respond to the barriers and challenges outlined in chapter 6.

4. **Carbon lock-in:** Transition Finance should not lock in carbon intensive assets, processes or technologies. This should be considered with reference to climate science, net zero pathways and the availability of technologically feasible and/or commercially viable solutions. Institutions should consider the lifetime of assets and activities and avoid extension beyond net zero pathways or in compatibility with the sector pathway's emissions allowance.

5. **Monitoring and reporting:** To provide transparency, transition finance should require annual monitoring and evaluation, with regular reporting in respect of transition strategy or plan implementation (where available) and outcomes from agreed baselines. This could include incentives, or declassification if transition activities are not performed and/or targets are missed. Where possible, consideration should be given to whether forward-looking metrics can complement core emission reduction and other targets, including capital expenditure.

Appendix C – Activity and entity or strategy level factors *(TFMR p30)*

To provide more granularity to support consideration of what constitutes a credible activity or entity/strategy, the following factors should be considered in determining credibility. These may be used separately or in combination. Transition strategies are relatively nascent, and so all Entity/Strategy Factors may not be satisfied in many instances. As part of good governance, companies should record which Factors are not satisfied and why, to enable broad consistency of approach and over time to drive continuous improvement.

Activity Factors

1. **Is the activity consistent with** or **enabling of** a sectoral decarbonisation scenario or pathway aligned or compatible with the **Paris Agreement**?

   • Such scenarios could include the International Energy Agency (IEA) Net Zero Emissions by 2050 Scenario (NZE).

2. **Is the activity consistent with** national or regional **green or transition taxonomies** that are aligned to or compatible with the Paris Agreement, or comparable national policy-driven performance thresholds (e.g. those developed under the US Inflation Reduction Act)?

3. If the activity is a **high-emitting transition activity** that replaces higher-emitting activities, but which is not viable in the long-term under a net zero pathway or carbon budget, has a phaseout date and carbon lock-in been considered, by reference to a credible third-party methodology?

   • Third party methodologies may include tests under a taxonomy, such as the EU Taxonomy, the additional attributes for use of 'transitional' activities described in the GFANZ Secretariat Technical Review Note or the European Bank for Reconstruction and Development's (EBRD's) approach to assess a low likelihood of carbon lock-in as part of its Methodology to determine the Paris Agreement alignment of EBRD investments.

4. Are **material environmental or social risks or negative impacts mitigated** in accordance with **applicable taxonomy criteria** (if a taxonomy is engaged), **credible third-party standards** or the financial institution's own **environmental and social policies** and standards (which should be consistent with credible third-party standards)?

   • Such mitigations may include criteria such as Do No Significant Harm and Minimum Social Safeguards for example, where relevant taxonomies are used.

   • Third-party standards may include International Finance Corporation (IFC) Performance Standards and EHS Guidelines, the Equator Principles, and relevant UN Conventions and Declarations (e.g. UN Declaration on the Rights of Indigenous Peoples).

5. **Are there reporting requirements in respect of relevant metrics and targets** that reflect the activity's actual performance by reference to the applicable pathway, taxonomy or performance threshold and its mitigation of environmental and social risks and negative impacts?

   • These are most likely to be provided in labelled transactions and in project finance.

6. Are the metrics reported subject to **limited assurance or independent consultant review**?

Entity/Strategy Factors

Entity/Strategy Factors are relevant in respect of transitioning entities that are borrowers or investees not only for entity-level finance; they should also be considered in relation to transition activities financing.

1. For entities **that fall within Category 2 of the TFCS**, do their climate solutions or enabling activities contribute to emissions reduction by:

   • *Climate solutions.* Demonstrating direct or indirect net contribution to and acceleration of real economy emissions reductions, without leading to carbon lock-in as set out in Guideline 4 above

   • *Enabling.* Being a meaningful or material component of the value chain that enables greenhouse gas emissions avoidance and/or removal (even if the business activity is associated with emissions itself)

   Additionally, for both solutions and enabling:

   • Are reasonable efforts planned or underway to address emissions reductions in the medium to long term (growth companies' emissions may scale over the shorter term), and can the activities be expected to align to a regional, national or sector pathway over time in a net zero economy aligned with the goals of the Paris Agreement? Institutions are encouraged to consider the elements of a transition strategy listed under

Factor 2 below when assessing these efforts.

• Are material environmental or social **risks or negative impacts mitigated** in accordance with applicable taxonomy criteria (if engaged) or credible third-party standards? See activity Factor 4 for further information.

2. **For entities that fall within Category 4 of the TFCS**, do their decarbonisation strategies include, or will their strategies be developed to include all or some of the following (recognising that the strategies of many entities, particularly private medium sized companies and those in EMDEs, currently may not have many of these elements):

   • If the entity has a transition plan, is it framed, disclosed and reported upon in accordance with the TPT Disclosure Framework, or the GFANZ net zero transition plan guidance, or other existing or forthcoming national, regional or voluntary frameworks of similar rigour, scope and transparency? This should involve consideration of the entity's contribution to economy-wide transition and the entity's implementation of its transition plan.

   • Consideration of the entity's **alignment to** NDCs, regional, national or sector pathways or taxonomies aligned or compatible with the Paris Agreement's goal or science-based targets, as set out in Guideline 3;

   • a **net zero ambition**, preferably specifying a 1.5°C pathway,38 by a stated endpoint;

   • current and planned **capital expenditure and operational expenditure** to deliver the strategy and increasing alignment of this with interim targets and net zero ambition;

   • scope 1 and 2 absolute greenhouse gas emissions reduction **interim targets** aligned or compatible with the Paris Agreement;

   • scope 3 (where material) absolute greenhouse gas emissions reduction **interim targets** aligned or compatible with the Paris Agreement;

   • consideration where applicable of **carbon lock-in and sunset dates** for relevant assets;

   • consideration of key dependencies, for example power supply of the countries where the entity's assets or significant suppliers (for Scope 3 greenhouse gas emissions) are located;

   • alignment to the strategy of the **entity's engagements across the value chain**, and with other stakeholders and public entities; and

   • **transition-related targets and key performance indicators (KPIs)** in respect of actions within the control of the entity.

3. Is there **oversight** of the approach under Guideline 1 or the transition plan or strategy under Guideline 2 by the entity's **board of directors**.

4. Is there **public disclosure of the entity's strategy or transition plan** and **annual disclosure of progress** against it?

5. **Is external assurance** in place or to be provided on an annual basis in respect of metrics, targets, KPIs and information used in the entity's transition strategy, in order to demonstrate progress.

   • Assurance can consist of limited assurance over metrics and targets disclosed as part of a transition strategy.

   Has the entity's business model or transition strategy been the subject of **external rating or scoring** as part of a Net Zero or similar assessment by a third-party organisation?

Transition Finance Council

CITY OF LONDON | THE GLOBAL CITY

About the City of London Corporation:

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:
• Contribute to a flourishing society
• Support a thriving community
• Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

www.cityoflondon.gov.uk

About the Global City campaign:

The Global City campaign is the City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre.

It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

www.theglobalcity.uk