

Transition
Finance
Council



THE
GLOBAL
CITY

MARCH 2026

Transition Finance Guidelines

Exposure draft

The Transition Finance Council's outputs

Each of the Transition Finance Council's publications addresses a different part of the challenge of scaling transition finance and together they form a coherent pathway for scaling credible transition finance.

The Year-End Progress Report sets out the background to the Council and its mandate, before presenting the outputs of the Council's three working groups and an overview of the UK market and international engagement carried out during the year. Finally, it provides an update on the fulfilment of the recommendations made in the TFMR.

The Finance Playbook sets out how government, industry and finance should co-design sector transition plans and technology roadmaps that integrate credible finance plans from the outset. Where the Guidelines help assess corporate level credibility, the Playbook helps design sector and technology level pathways that make those credible transitions deliverable.

The Technology Scale-Up Roadmap on Long-Duration Energy Storage (LDES) applies the Playbook's co-creation and finance integration Principles to a specific emerging technology area.

The Policy Briefs are a set of four targeted, evidence-based recommendations for government that address the structural barriers to scaling transition finance. The recommendations include undertaking a focused push to support transition finance guidance and to popularise transition labelled instruments and seeking to drive delivery by embedding co-creation across sectors and technologies, consistent with the Finance Playbook.

The Council published these Guidelines as part of a collection of outputs:



➤ **The Implementation Handbook**
(March 2026)



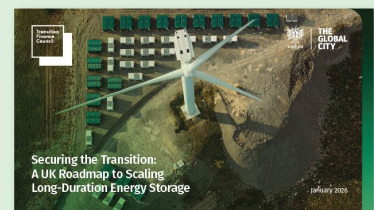
➤ **The Policy Briefs**
(March 2026)



➤ **The Progress Report**
(March 2026)



➤ **The Finance Playbook**
(September 2025)



➤ **The LDES Roadmap**
(January 2026)

Contents

Acknowledgements.....	4
1. Introduction.....	5
1.1 Unlocking transition finance.....	5
1.2 Purpose and scope of the Guidelines.....	5
1.3 Next steps.....	8
2. The Guidelines.....	9
2.1 Structure of the Guidelines.....	9
2.2 Principles.....	12
2.3 Assessment Factors.....	13
2.4 Contextual Factors.....	21
3. Interpretive Guidance.....	24
3.1 Credible Corporate Pathways and Credible Reference Pathways.....	24
3.2 Evidencing and Monitoring Assessment Factors.....	26
3.3 Materiality.....	27
3.4 Environmental and social risks.....	28
Glossary.....	30

Disclaimer

The Transition Finance Guidelines (2026 exposure draft) and Implementation Handbook (2026 exposure draft) (the “documents”) are designed to share good practice in the context of transition finance, and do not constitute legal, financial, tax, or other professional advice and should not be relied upon as such. Any person seeking such advice should obtain their own independent advice.

No responsibility or liability whatsoever is assumed by the Transition Finance Council, or any other body or organisation or individuals who contributed to or were otherwise involved in their preparation, for any losses, damages, or consequences directly, indirectly or incidentally arising from their content, use or application whether in whole or in part. No representation or warranty is given in respect of the information in these documents and the views expressed in these documents do not necessarily reflect those of the individuals, organisations or bodies involved in their production. To the maximum extent permitted by applicable law and regulation, all and any such responsibility and liability is disclaimed.

Nothing within the Transition Finance Guidelines (2026 exposure draft) and Implementation Handbook (2026 exposure draft) is intended to override, substitute, or alter existing legal or regulatory requirements, including, without limitation, the duties of a capital provider’s or entity’s directors and senior managers, or a capital provider’s or entity’s constitutional documents, or to require public disclosure of commercially sensitive information. The examples and case studies are provided for illustrative purposes only, and the use scenarios are intentionally simple. Although some aspects of these illustrative examples, case studies or use scenarios may be present in a real-life scenario, a capital provider or entity would need to evaluate all the relevant facts and specific circumstances if using or applying all or any part of the Transition Finance Guidelines (2026 exposure draft) and Implementation Handbook (2026 exposure draft).

Certain information has come from official or other third-party sources, which information has not been independently verified. Certain information is also forward looking which, by its nature, involves known and unknown risks and uncertainties and is based on assumptions regarding future events and circumstances that may or may not occur. Undue weight should not, therefore, be placed on forward-looking information. The documents are also based on matters as they exist at their date and no person is under any obligation to update, revise or keep current the information contained in these documents.

Acknowledgements

The Council would like to thank the Credibility and Integrity Working Group members for their valuable input into the development of the Guidelines and for the time that they have spent in support of the Council's work. The working group members are:

- **Vanessa Havard-Williams OBE**, Transition Finance Market Review (Working Group Chair)
- **Oliver Moullin**, AFME (Observer)
- **Adelaide Morphet**, IFM Investors
- **Agnes Gourc**, BNP Paribas
- **Alex Kennedy**, Standard Chartered Bank
- **Anna Creed**, Climate Bonds Initiative
- **Beth Burks**, S&P Global
- **Cameron Bain**, IFM Investors
- **Charles Liechti**, Santander Corporate & Investment Banking
- **Daisy Streatfeild**, Ninety One
- **David Carlin**, D. A. Carlin and Company
- **David Russell**, Transition Pathway Initiative
- **Fabrizio Palmucci**, Impactivise
- **Gemma Lawrence-Pardew**, Loan Market Association
- **Agnieszka Smolenska**, CETEx, LSE Grantham Research Institute
- **Lizzy Girling**, Standard Chartered Bank
- **Luke Nelson**, JPMorganChase
- **Michael Wilkins**, CETEx, LSE Grantham Research Institute
- **Simone Utermarck**, International Capital Market Association (ICMA)
- **Steffen Kram**
- **Tom Tayler**, LSE Grantham Research Institute
- **Vicki Bakhshi**, Columbia Threadneedle
- **Monica Filkova**, Aviva

The Council would also like to thank current and former members of the TFC Secretariat for their work on the Guidelines and the wider TFC work programme:

- **Laila Sharif** (Technical Lead)
- **Tim Foulds**
- **Teresa Clark**
- **Ashleigh Lee**
- **Ieuan Luke**
- **Will Minter-Kemp**
- **Amy Thomas**
- **Corinna Williams**
- **Claire Sheppard**

We would like to thank the City of London Corporation, the Chair, Deputy Chair and Steering Group for their support and **Faith Ward** and the members of her Scaling Transition Finance working group, who helped us with case studies and practical feedback. We also thank colleagues from HMT and DESNZ, colleagues at the Financial Conduct Authority, and **Ying-Peng Chin** at AO Shearman for their support in reviewing the Guidelines. We are grateful to the organisations who responded to our consultations or participated in workshops, roundtables, and other engagements and to **Jon Williams** of Accenture who was instrumental in resourcing the Secretariat in the last 12 months.

1. Introduction

1.1 Unlocking transition finance

The world is continuing to move towards a low-carbon energy system, and private capital will have a central role in an economy-wide transition. Investment in mature green technologies (renewables, batteries and electrified transport) has grown rapidly, 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.

As the market's interest in transition finance grows, a broader understanding has developed as to the different forms it can take. It is worth distinguishing transition finance in this context, from the wider concept of "financing the transition", which 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 the entity as a whole. Recent work has resulted in guidance for transition loans and bonds in the labelled market, where the primary opportunities are in respect of projects and defined activities. These Guidelines look at entity-level transition; they help capital providers assess the credibility of an entity's transition planning and implementation; and they focus on real economy entities, particularly in high-emitting sectors. They may be used as a tool to qualify credible transitioning companies as entity-level finance as well as informing transition finance frameworks and other transition assessment processes.

1.2 Purpose and scope of the Guidelines

The UK Transition Finance Council (the Council), co-launched by the City of London Corporation and the UK Government in 2025, has produced this exposure draft edition of voluntary Transition Finance Guidelines for assessing entity-level transition (the Guidelines).

Purpose of the Guidelines

The Guidelines are intended for unlabelled general equity and debt investment and finance. They provide a methodology for investors and lenders (referred to as capital providers) to assess the credibility of a real economy entity's transition ambition, planning and investment, and are anchored to the Paris Agreement average temperature goal.

The Guidelines are designed to help capital providers qualify and scale general entity-level finance for transitioning entities. They provide a common cross-jurisdictional and cross-sector assessment framework for use by capital providers to evaluate the credibility of an entity's transition ambition and implementation. They:

- 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 entities the expected areas of focus of capital providers.

Rationale for focus on entity-level financing

The Council had two main reasons for focusing on the development of Guidelines for entity-level finance.

First, most capital provided to companies is deployed for general corporate purposes rather than ringfenced to specific projects or activities, meaning that capital flows at the entity-level significantly exceed those allocated to defined projects or activities. The development of fund categories (the UK's Sustainability Improvers label¹ and the proposed transition category under the EU's legislative proposal for a Sustainable Finance Disclosure Regulation 2.0²) provides secondary market opportunities for more investment with a transition theme if concerns about greenwashing risk can be addressed. Developing guidance to support assessment of entity-level transition planning addresses an area where there are not many public practical resources. As climate risk assessment improves, understanding the extent to which transition risk is being mitigated may be a relevant input in capital allocation and pricing. Use of the Guidelines has the potential to support investment in the transition of entities with credible strategies and governance, influencing a broader share of economic activity than is possible at project or activity-level. For companies, this creates an opportunity to attract more dedicated pools of capital and expand and diversify their investor base.

Second, assessing the credibility of entity-level transition ambition and performance is more challenging than focusing on projects or a list of defined activities. Companies in transitioning sectors have the challenge of balancing normal commercial and investor expectations with a longer-term transition strategy, and they will be operating legacy assets while moving towards low-carbon assets over time (most of them having just started). The Guidelines provide a focused tool to further aid capital providers' ability to assess transition at the entity-level. This should also help companies and institutions to grow investment flows by creating greater confidence in transition as an investment theme.

Labelled instruments form another important component of transition finance. They either operate in respect of projects or defined activities through use of proceeds loans and bonds, or at entity-level through sustainability linked loans and bonds. Much of the focus of labelled transition finance has so far been at the project or activities level. Both the International Capital Markets Association (ICMA) and the Loan Markets Association (LMA) have recently produced new transition-related guidance for the labelled debt market. In the case of any labelled finance, the methodology of the relevant standard setter must be applied. These Guidelines could be used as an additional evaluation tool if desired for labelled sustainability-linked financial instruments. They are not intended for use of proceeds instruments.

¹ Financial Conduct Authority (2023), *Sustainability Disclosure Requirements (SDR) and investment labels*, PS23/16, p. 37 (Sustainability Improvers label)

² Register of Commission Documents – COM(2025)841

Using the Guidelines

The Guidelines can be used directly by capital providers or as an input informing design of entity-level transition finance frameworks, financial products and other transition assessment processes including portfolio tracking and engagement. Where the Guidelines are used or interpreted in a way that is significantly different from the approach set out here, this should be clearly stated. For more detail on suggested users and use cases, please see the Implementation Handbook that supports the use of these Guidelines.

The Guidelines leverage existing standards, instruments and models from the sustainable finance landscape to define credibility. Popular disclosure frameworks (CDP, IFRS S2, TPT Disclosure Framework) can evidence alignment with the Guidelines. Potential uses of the Guidelines alongside the Net Zero Investment Framework (NZIF), the proposed EU Sustainable Finance Disclosure Regulation 2.0 and the UK's Sustainable Disclosure Requirements (SDR) are explained in the Implementation Handbook.

Scope of the Guidelines

The Guidelines are intended for³ application to companies in all real economy sectors, including portfolio companies holding real assets (collectively referred to from here on as “entities”). They work best for entities that have set Paris aligned interim targets and have also integrated delivery actions to meet these targets into their business and financial strategy, with or without a separate transition plan. This is likely to mean that initially multi-national, regional or national large or listed companies are most likely to qualify.

Entities in emerging markets and developing economies (EMDE) may have different starting points, routes and timelines to transition than those in advanced economies. This is built into the concepts of Credible Reference Pathways and Credible Corporate Pathways which anchor these Guidelines to the Paris Agreement. They reference the longer timelines available under the Paris Agreement for EMDE decarbonisation (applicable for EMDE entities and entities with EMDE located operations, in respect of those operations). EMDE entities may also face challenges in relation to the production of evidence and data. Some alternatives to quantitative data can be used in assessing entities against the Guidelines. The Council considers the application of these Guidelines in EMDE markets, along with the development of proxy options where data challenges arise, as a key area for testing.

It is worth noting that not all investment or credit can or should qualify as credible transition finance, and there may be robust regulatory, social or economic reasons for entities to adopt a different strategy to one which would fall within the scope of the Guidelines. For small entities or those that are at an earlier stage in their transition thinking (“transitioning towards transition”), the Guidelines may be useful to inform thinking. However, project or use of proceeds finance, including green or transition labelled finance, may be more useful for these entities than seeking to qualify for entity-level transition finance. These Guidelines are not for qualifying investment in climate solution providers which, as stated in the Transition Finance Market Review, remains a critical part of financing the transition.

At the instrument level, The Guidelines are designed to be capable of application across all asset classes. However, it is acknowledged that different challenges may arise dependent on the asset class. The Implementation Handbook provides further guidance for different asset class contexts.

³ Application of the Guidelines to financial institutions is not within scope.

Long-term objective of the Guidelines

From a policy perspective, the Council's hope is that these Guidelines help encourage a continuous and reinforcing cycle between credible transition planning and implementation and availability of transition finance. This should enable more effective transition progress, which in turn generates insights that inform future action. As uptake of the Guidelines increases, this should help unlock sectoral insights on investment pipelines, anticipated demand, and remaining barriers and so inform institutional and regulator risk management and government policy-making.

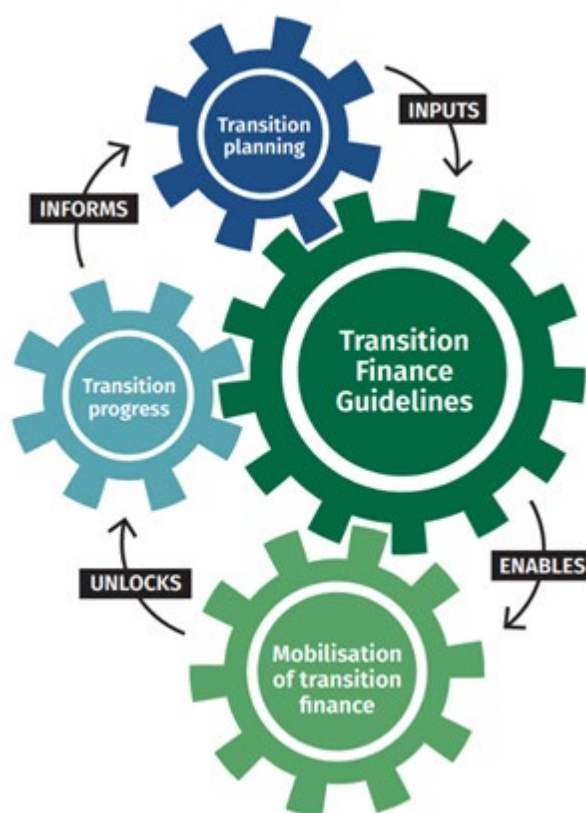


Figure 1, Mechanism for mobilising transition finance

1.3 Next steps

Defining transition finance is a relatively new area: it can involve complicated issues at national and entity-level. For this reason, the Council has published these Guidelines as an exposure draft. Feedback provided to the Council through engagement or other mechanisms will be considered later in 2026/7 with a view to publishing an updated edition. The Council is also interested in engaging with institutions who could play a role in relation to the ongoing curation of the Guidelines in subsequent years.

2. The Guidelines

2.1 Structure of the Guidelines

Principles, Assessment Factors, Contextual Factors and Criteria

The Principles and Assessment Factors are used to assess whether an entity's approach to transition qualifies under the Guidelines.

- Principles = *What must be true* for transition finance to be credible.
- Assessment Factors = *What you assess* to determine if the Principles are met.

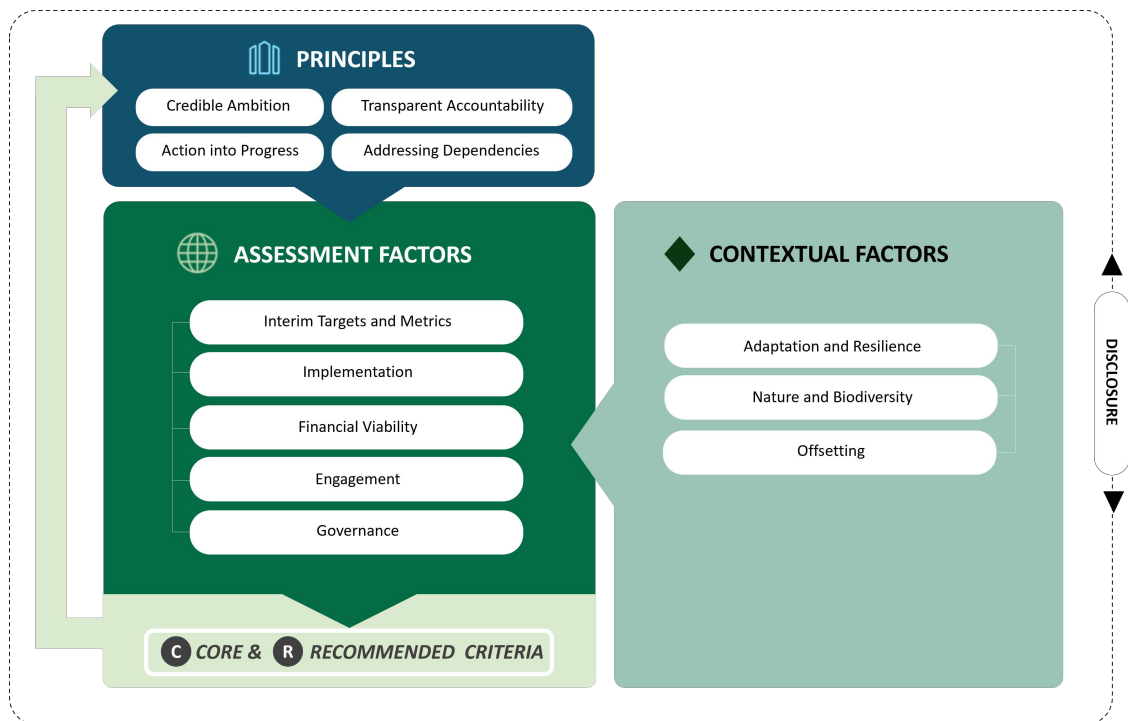


Figure 2, Structure of the Transition Finance Guidelines

There are four Principles, and each Principle represents a dimension of credibility, drawing from the Principles of Ambition, Action and Accountability under the TPT disclosure framework⁴.

The first Principle defines Credible Ambition and uses **Credible Reference Pathways** and **Credible Corporate Pathways** to define targets. These are critical concepts for the operation of the Guidelines and are explained in Section 3.1. The other Principles frame credibility by reference to action, accountability and understanding of dependencies.

There are five Assessment Factors that support the Principles and are used to assess whether an entity meets the expectations for credible transition finance. The Assessment Factors are broken down into practical Criteria to demonstrate whether the Principles are satisfied. These are divided

⁴ Transition Plan Taskforce (TPT) (2023), *TPT Disclosure Framework*

into **Core Criteria** and **Recommended Criteria** and are presented in the tables below for each Assessment Factor.

- **Core Criteria** = Criteria the assessor should apply to satisfy the Principles.
- **Recommended Criteria** = Criteria the assessor may consider, particularly for already mature entities in mature markets or as the entity matures over time.

There are fifteen (15) Core Criteria and eight (8) Recommended Criteria. Each criterion in the Assessment Factor tables is marked to show for which Principle it serves as an indicator of performance.

The **Principles** are satisfied where the Core Criteria specified under the Assessment Factors are met. If the Core Criteria are largely met but not met in full, it is within the capital provider's discretion to determine whether the Principles are or will shortly be satisfied⁵. If such discretion is applied, it must be justified.

It is at the discretion of Guideline users to determine when to apply the **Recommended Criteria** in addition to the **Core Criteria** for assessment purposes using disclosures and other evidence available to them. For example, the user may wish to apply the Core Criteria and specify a subset of Recommended Criteria, or the user may wish to show that both Core Criteria and Recommended Criteria are met. The user might consider applying the Recommended Criteria when the entity is:

- large or publicly listed;
- predominantly operating in developed markets or geographies or headquartered there; or
- In an industry with a relatively mature sectoral decarbonisation pathway.

Some entities will be able to meet all Core Criteria and Recommended Criteria of the Assessment Factors. Performance at this level is likely to be influenced by the relative transition maturity of the entity and the policy environment in which it operates. The number of entities that progress to meet the Recommended Criteria is likely to increase over time.

Contextual Factors

Other matters, connected with the entity's transition planning and arising from its business activities and operating context, may also be relevant to a capital provider's assessment of the entity. This may be because they give rise to material risks or impacts or are inconsistent with the investment objectives or the policies of the capital provider. These are referred to as "**Contextual Factors**".

The application of the Contextual Factors is addressed in Section 2.4. This section includes references to materials that can be used for more detailed consideration of common Contextual Factors. In some cases, the issues falling within the scope of Contextual Factors will be dependencies affecting the entity's ability to deliver its interim targets. In these circumstances, the Core and Recommended Criteria in the Assessment Factors which are mapped to the Addressing Dependencies Principle will apply.

⁵ This can be done at entity-level by identifying those Core Criteria on which it has based its determination.

Disclosure, Evidence and Monitoring

Disclosure and evidence, whether this is public or privately provided or other evidence sourced by the capital provider, underpins the application of the Assessment Factors. Periodic sharing of information between the entity and the capital provider supports the ongoing assessment of credibility. Disclosure, evidence and monitoring is explained in Section 3.2.

The Guidelines do not assign fixed responsibility for the task of assessing or periodic monitoring of alignment with the Assessment Factors. It is up to the entity and capital provider to determine by whom this will be undertaken. This person is referred to in these Guidelines as the “assessor”. This may include a third party appointed by either the capital provider or the entity for the benefit of any capital provider, to undertake the assessment. The assessor is responsible for assessing whether the evidence satisfies the Assessment Factors and for the process of assessing disclosures and evidence against the Assessment Factor Criteria. The capital provider (or its assessor) judges whether the Assessment Factors have been satisfied.

Materiality

Materiality is referenced in some Core and Recommended Criteria and in other parts of the Guidelines. Materiality is explained at Section 3.3.

Dependencies

Dependencies are factors upon which the entity's ability to undertake its implementation actions and meet its interim targets depend. Key dependencies are those which have a significant bearing on an entity's ability to deliver on its interim targets.

Understanding how the entity has identified and assessed any dependencies, and how it is responding to key dependencies in relation to which it has an ability to influence outcomes is explained in the Addressing Dependencies Principle and subsequently in Criteria mapped to this Principle. The Implementation Handbook provides a case study and further examples of how an entity may take reasonable steps to influence its dependencies, please see Section 5 of the Handbook.

At the time of publication, events in the Middle East have led to energy market impacts, the ultimate magnitude and duration of which are unclear. The Guidelines acknowledge the role that external factors can play in relation to implementation actions and target-setting through consideration of dependencies. They contemplate that progress may not be linear and periodic review of actions and targets may be necessary if dependencies change. External events which are outside an entity's control should not be viewed in themselves as a basis for invalidating the entity's approach where these may delay progress but outcomes can be managed by adjustment of targets, actions or timelines (Implementation Handbook Section 2.7 *Performance outcomes and response mechanisms*).

2.2 Principles

The four Principles are Credible Ambition, Action into Progress, Transparent Accountability and Addressing Dependencies.



Figure 3, The Principles

PRINCIPLE 1: Credible Ambition

This Principle is met when the capital provider is satisfied the entity has the ambition and capacity to substantially reduce emissions in a structured way, consistent with a Credible Corporate Pathway. This includes having clear interim targets, metrics and implementation actions consistent with this Credible Corporate Pathway.

Criteria responsive to Credible Ambition: 1.1, 1.2, 1.3, 1.7, 4.1, 5.1

PRINCIPLE 2: Action into Progress

This Principle is met when the capital provider is satisfied that the entity is using reasonable efforts and is reasonably capable of progressing implementation actions with the purpose of meeting any interim targets and metrics it has set, consistent with delivery of its credible ambition under Principle 1.

Criteria responsive to Action into Progress: 1.6, 2.1, 2.4, 3.1, 3.3

PRINCIPLE 3: Transparent Accountability

This Principle is met when the capital provider is satisfied that the entity's implementation actions and interim targets and metrics are integrated into its organisational processes and governance. Whether through public disclosure or other means, capital providers can assess its ambition, targets and progress.

Criteria responsive to Transparent Accountability: 1.4, 1.5, 2.3, 3.2, 5.2, 5.3

PRINCIPLE 4: Addressing Dependencies

This Principle is met when the capital provider is satisfied that the entity has analysed and considered key dependencies in determining its implementation actions, interim targets and metrics. This includes the entity taking reasonable, proportionate action, including through engaging stakeholders where appropriate, in relation to any key dependencies over which it has influence.

Criteria responsive to Addressing Dependencies: 1.8, 1.9, 2.2, 2.5, 4.2, 5.4

2.3 Assessment Factors



Figure 4, Assessment Factors



The five Assessment Factors are Interim Targets and Metrics, Implementation, Financial Viability, Engagement and Governance. The tables below show the Core and Recommended Criteria for each Assessment Factor, and how each criterion supports the overarching Principles. Each criterion has been mapped to one of the four Principles, to demonstrate how satisfaction of these Principles can be evidenced. References to some external materials relating to the Criteria can be found at the bottom of the Factor tables.

Table 1, Interim Targets and Metrics

CRITERIA: **C** 8 of 9 Criteria are Core | **R** 1 is Recommended

	INTERIM TARGETS AND METRICS FACTORS	PRINCIPLES:
C	1.1 The entity has quantitatively defined interim decarbonisation targets which cover material emissions sources across Scopes 1 and 2.	CREDIBLE AMBITION
C	<p>1.2 The entity has quantitatively defined interim decarbonisation targets which cover emission sources in material Scope 3 categories or an operational target(s) or other measurable objective(s) aimed at addressing Scope 3.</p> <p>Though a quantitative emissions reduction target is preferred, if the entity's interim decarbonisation targets do not cover its material Scope 3 emissions:</p> <ul style="list-style-type: none"> • there is a clear and demonstrable link to a credible proxy (either an operational target(s) or another measurable objective(s)) aimed at addressing decarbonisation of Scope 3 categories; and • the entity has or is currently developing actions to improve its Scope 3 GHG data. <p><i>Note: Please see a non-exhaustive list of examples of credible proxies in the box below.</i></p>	CREDIBLE AMBITION
C	<p>1.3 It is clear how interim target(s) are consistent with a Credible Corporate Pathway(s) which references one or more Credible Reference Pathways.</p> <p><i>Note: Quantitative emissions targets may be absolute or intensity-based if they are consistent with the Credible Corporate Pathway.</i></p>	CREDIBLE AMBITION
C	1.4 Quantitative interim target(s) outline the baseline year, target year and the methodology used. Target year is justifiable, i.e. consistent with market practice, and not so short as to significantly limit the potential for transition impact ⁶ .	TRANSPARENT ACCOUNTABILITY
C	1.5 Progress against the target(s) is monitored on an annual basis.	TRANSPARENT ACCOUNTABILITY
C	1.6 There is progress made against the interim targets over the target period. Where progress is not linear, other metrics or information which show progress on actions are evident.	ACTION INTO PROGRESS

⁶ "Consistent with market practice" refers to the prevailing time horizons typically adopted in transition planning and target setting frameworks at the time of assessment (which, at the date of publication, commonly reference 2030 as an interim milestone). However, the Guidelines do not prescribe a fixed calendar year. As the time remaining to widely used milestone years shortens, assessors should ensure that interim target years remain sufficiently forward-looking to drive meaningful transition impact.

	 INTERIM TARGETS AND METRICS FACTORS	 PRINCIPLES:
C	1.7 The entity has a long-term ambition for overall emissions reductions, although a quantified long-term target is not required.	<div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; text-align: center;"> CREDIBLE AMBITION </div>
C	1.8 Key dependencies and assumptions that may reasonably affect the achievement of the target(s) have been considered, and this consideration includes an understanding of the potential impact if the dependencies do not hold. <i>Note: Dependencies and assumptions are context specific, they might include but are not limited to finance, policy, incentives, infrastructure availability, regulatory gates, technology risk, demand creation and environmental or social impacts.</i>	<div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; text-align: center;"> ADDRESSING DEPENDENCIES </div>
R	1.9 Dependencies are reviewed periodically. <i>Note: See Implementation Factor Table below on how dependencies are addressed.</i>	<div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; text-align: center;"> ADDRESSING DEPENDENCIES </div>

References to other frameworks, standards, guidance, and tools:

- **Material emissions sources:** Frameworks such as the GHG Protocol⁷, CDP⁸, European Financial Reporting Advisory Group (EFRAG)⁹, and IFRS S1¹⁰ and S2¹¹ contain guidance/requirements on identifying and disclosing material sources of greenhouse gas (GHG) emissions across Scope 1, Scope 2 and Scope 3 emissions within an entity's operations and value chain, taking into account sector-specific drivers of emissions. Please see Section 3.3 for a definition of material emissions sources.
- **Credible Corporate Pathway:** Please see Section 3.1 for a definition of Credible Corporate Pathway.
- **Credible Reference Pathway:** Please see Section 3.1 for a definition of Credible Reference Pathways.
- **Green revenue:** Where entities use green revenue as a metric, clarity is needed on the definition of 'green'. The EU Taxonomy¹², for example, provides detailed technical screening criteria to determine whether revenues are derived from environmentally sustainable activities. Other taxonomies such as from China, Singapore, ASEAN and India also provide similar screenings.
- **Long-term ambition:** The ISSB (via IFRS S2), Science-based Target Initiative (SBTi), and the CDP can serve as references for understanding and interpreting an entity's long-term ambition, providing definitions of long-term climate target, or long-term emissions reduction objectives.

⁷ GHG Protocol (2015), *Corporate Accounting and Reporting Standard*

⁸ Carbon Disclosure Project (CDP) (annual updates), *Disclosure Framework and Reporting Guidance*

⁹ European Financial Reporting Advisory Group (EFRAG) (2024), *Sustainability Reporting Standards Framework*

¹⁰ International Financial Reporting Standards Foundation (IFRS) (2023), *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*

¹¹ International Financial Reporting Standards Foundation (IFRS) (2023), *IFRS S2 Climate-related Disclosures*

¹² European Commission (2024), *EU Taxonomy for Sustainable Activities*

 INTERIM TARGETS AND METRICS FACTORS

 PRINCIPLES:

- **Key dependencies:** The ISSB¹³ (via IFRS S1 and S2) and ESRS¹⁴ frameworks contain guidance/requirements on identifying and disclosing sustainability-related risks and opportunities, including dependencies, that could reasonably be expected to affect an entity's prospects. A definition of key dependencies is included in the Glossary.

EXAMPLES OF CREDIBLE PROXIES (Criterion 1.2)

The most relevant operational targets or other measurable objectives are closely linked to the entity's value chain and reflect sector-specific characteristics of the entity's emissions profile. Examples may include, but are not limited to:

Targets/metrics as proxies for upstream emissions reduction

- **Supply chain:** Percentage of suppliers with validated net-zero targets or science-based targets, percentage of suppliers covered by a supplier engagement or decarbonisation programme.
- **Capital and investment alignment:** percentage of CapEx/OpEx directed toward transition-aligned activities, use of internal carbon pricing to guide capital allocation decisions.
- **Operations:** Share of renewable energy usage in total energy consumption, share of electric or zero-emissions vehicles in the company fleet, share of alternative or low-carbon fuels used in operations.
- **Materials & inputs:** Energy or carbon intensity of purchased goods, percentage of inputs sourced from recycled, renewable or low-carbon materials.

Targets/metrics as proxies for downstream emissions reduction



- **Product & Service Portfolio:** Percentage of revenues derived from low-carbon or "green" products or services (using an appropriate taxonomy), product mix targets (e.g., increasing the share of electric, energy-efficient, or circular products), percentage of R&D expenditure directed toward sustainable or low-carbon product development.
- **Customer & Market Engagement:** Percentage of customers participating in emissions reduction or energy-efficiency programmes, percentage of sales including sustainability-linked criteria.
- **Circular & End-of-Life:** Product reuse or recycling rates, availability or uptake of circular service models (e.g., repair, refurbishment, product-as-a-service).

¹³ International Sustainability Standards Board (ISSB)/IFRS Foundation (2023), *IFRS Sustainability Disclosure Standards (IFRS S1 and S2)*

¹⁴ European Financial Reporting Advisory Group (EFRAG) (2024), *European Sustainability Reporting Standards (ESRS) Workstreams*

Table,2 Implementation

CRITERIA: **C** 3 of 5 Criteria are Core | **R** 2 are Recommended

	 IMPLEMENTATION FACTOR	 PRINCIPLES:
C	<p>2.1 The entity has time-bound implementation actions that are related to (but are not limited to) the entity's operations, engagement, its products and services and its policies. The actions:</p> <ul style="list-style-type: none"> • directly contribute to the entity's interim targets and metrics in line with its Credible Corporate Pathway; and • focus on achievable, commercially and technologically feasible steps at the time of capital deployment. <p><i>Note: How actions are directly contributing towards the entity's target(s) can be shown either quantitatively or qualitatively.</i></p>	<p>ACTION INTO PROGRESS</p>
C	<p>2.2 The entity has taken reasonable steps to mitigate or manage key dependencies, where the entity has the ability to influence them.</p>	<p>ADDRESSING DEPENDENCIES</p>
C	<p>2.3 The entity periodically reviews and, when necessary, updates its actions and interim targets, informed by progress or changes in key dependencies (for example, sector or policy changes or changes in corporate or group structure).</p>	<p>TRANSPARENT ACCOUNTABILITY</p>
R	<p>2.4 Where progress is not made as originally expected, it is explained, along with any planned corrective actions to be undertaken.</p>	<p>ACTION INTO PROGRESS</p>
R	<p>2.5 The entity is taking reasonable steps to avoid or mitigate adverse environmental or social risks or impacts.</p>	<p>ADDRESSING DEPENDENCIES</p>



References to other frameworks:

- **Achievable, commercially and technologically feasible:** The EU Taxonomy¹⁵ framework specifies that sustainable economic activities must be technically and economically viable.

¹⁵ European Commission (2024), *EU Taxonomy for Sustainable Activities*

Table 3 Financial Viability

CRITERIA: **C** 1 of 3 Criteria is Core | **R** 2 are Recommended

	 FINANCIAL VIABILITY FACTOR	 PRINCIPLES:
C	<p>3.1 Where financially material spend or changes to income streams are required for the entity's implementation actions, these are reflected or achievable within its financial planning and budgeting processes (for example, capital or operating expenditure, or R&D budget). If precise quantitative financial information is not available, it is clear where investment may be required, and that it is being considered within financial plans or budgeting processes. (For example, this could be actions or milestones that support the required investments towards the target(s)).</p>	<p>ACTION INTO PROGRESS</p>
R	<p>3.2 The entity takes reasonable steps to integrate the financial impacts of its transition strategy (for example, impacts on expected cash flow and financial forecasts) into its financial reporting.</p>	<p>TRANSPARENT ACCOUNTABILITY</p>
R	<p>3.3 The entity's revenue, R&D expenditure, capital expenditures or assets mix targets is moving in line with its Credible Corporate Pathway (this is not required to be linear).</p>	<p>ACTION INTO PROGRESS</p>

References to other frameworks:

- **“Financially material”:** Please see Section 3.3 for a definition of financially material.
- **Budgeted implementation actions:** Information on the financial viability of decarbonisation levers can be found at CPP Investments¹⁶, Accounting for Sustainability¹⁷ (A4S), and the Transition Finance Council's Finance Playbook¹⁸.



¹⁶ CPP Investments (2022), *The Decarbonisation Imperative*

¹⁷ Accounting for Sustainability (A4S) (latest), *Aligning Financial Planning and Transition Planning Guide*

¹⁸ Transition Finance Council (2025), *The Finance Playbook*

Table 4 Engagement

CRITERIA: **C** 1 of 2 Criteria is Core | **R** 1 is Recommended

	 ENGAGEMENT FACTOR	 PRINCIPLES:
C	<p>4.1 Direct or indirect engagement activity by the entity does not demonstrably undermine its Credible Corporate Pathway or its ability to meet its interim targets and metrics.</p> <p><i>Note: This criterion may be considered satisfied if there is no significant adverse issue identified based on controversy searches or screenings performed.</i></p>	<div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; text-align: center; background-color: #e0f2f1;"> CREDIBLE AMBITION </div>
R	<p>4.2 There is an understanding of how engagement with external stakeholders by the entity is linked to the mitigation of the entity's dependencies and how engagement activity is managing exposure to dependencies so far as reasonably possible.</p>	<div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; text-align: center; background-color: #e0f2f1;"> ADDRESSING DEPENDENCIES </div>

References to other frameworks:

- **Direct or indirect engagement activity:** Frameworks such as CDP¹⁹ require information related to an entity's direct and indirect engagement.
- **External Stakeholders:** Frameworks such as TPT²⁰, CDP²¹, GRI²² and ESRS²³ require entities to disclose their engagement with external stakeholders.

¹⁹ Carbon Disclosure Project (CDP) (annual updates), *Disclosure Framework and Reporting Guidance*

²⁰ Transition Plan Taskforce (TPT) (2023), *TPT Disclosure Framework*



²¹ Carbon Disclosure Project (CDP) (annual updates), *Disclosure Framework and Reporting Guidance*

²² Global Reporting Initiative (GRI), *GRI Standards*

²³ European Financial Reporting Advisory Group (EFRAG) (2025), *Draft Simplified ESRS*

Table,5 Governance

CRITERIA: **C** 2 of 4 Criteria are Core | **R** 2 are Recommended

	 GOVERNANCE FACTOR	 PRINCIPLES:
C	5.1 Interim targets and metrics and transition planning are approved by senior decision-makers (for example the leadership team or the Board where the entity has a Board).	CREDIBLE AMBITION
C	5.2 Responsibility for delivery is allocated to one or more governance bodies and/or senior executives.	TRANSPARENT ACCOUNTABILITY
R	5.3 The entity applies financial incentives at entity or management level, such as remuneration or performance-based pay for senior management, that are linked to the achievement of transition-related targets or milestones.	TRANSPARENT ACCOUNTABILITY
R	5.4 Where there are current or anticipated changes to the entity's business model or governance affecting transition planning or interim targets and metrics, this is addressed by a senior management or Board review.	ADDRESSING DEPENDENCIES

References to other frameworks:

- Financial Incentives: ISSB (IFRS S2²⁴), ESRS²⁵, and CDP²⁶ reporting frameworks require entities to disclose financial incentives linked to climate-related performance.

²⁴ International Financial Reporting Standards Foundation (IFRS) (2023), *IFRS S2 Climate-related Disclosures*

²⁵ European Financial Reporting Advisory Group (EFRAG) (2024), *European Sustainability Reporting Standards (ESRS) Workstreams*

²⁶ Carbon Disclosure Project (CDP) (annual updates), *Disclosure Framework and Reporting Guidance*

2.4 Contextual Factors

Contextual Factors that are material to the assessment will vary depending on matters such as the capital provider's objectives, and the entity's sector, geographies and type of operations, and regulatory and market characteristics. It is therefore not possible to provide an exhaustive list of all potential Contextual Factors.

A failure to identify and mitigate relevant Contextual Factors may give rise to problems such as extra cost, litigation and reputational damage. In some cases, Contextual Factors could also affect the entity's ability to deliver on its interim targets. For example, without adequate consideration of the resilience of an entity's supply chain to extreme weather events, there could be disruption to the provision of key transition inputs (for example, critical minerals or agri-commodities). In these instances, where Contextual Factors become key dependencies for meeting interim targets, or are otherwise addressed in the Criteria (for example, the environmental and social criterion), the relevant Core and Recommended Criteria will apply.

This section presents Contextual Factors which are commonly considered in the context of transition planning and transition finance. Interactions between different Contextual Factors may be complex. A structured approach to materiality assessment can help identify which Contextual Factors are relevant for a given entity and where there may be potential unintended consequences or trade-offs. Materiality is explained in Section 3.3.



Figure 5, The Contextual Factors

This section contains additional indicative guidance and resources on how to approach common Contextual Factors. Assessors may wish to refer to this for the purpose of identifying, assessing and managing related material risks and impacts. The Contextual Factors below do not represent an exhaustive list for consideration.

Adaptation and Resilience

Where physical climate change impacts are likely to pose a material risk to an entity's business, the entity may wish to ensure that its transition implementation actions are designed to incorporate adaptation measures to create resilience. It may also wish to consider more broadly its exposure to these risks and to integrate actions to address them into its planning. Physical risk management and development of resilience through adaptation is likely to require careful consideration of relevant ecosystem services and natural capital, which will support transition credibility.

Evidence that an entity has undertaken a physical climate risk assessment and that adaptation and resilience planning is embedded into its business strategy, including budget, ownership of actions, and implementation timelines, may indicate that it is actively managing any physical risk-related dependencies and is positioned to maintain progress under changing conditions.

Relevant resources include:

- The IIGCC's *Climate Resilience Investment Framework*.
- *PCRAM 2.0 methodology*, which provides practical guidance on integrating physical climate risk into investment processes.
- The UN PRI's *technical guides on adaptation and private markets*.
- The UNEP FI's *measurement framework*, which offers adaptable metrics for assessing resilience impact.
- The TPT's *Building Climate-ready Transition Plans*.
- The NGFS' *Input paper on Integrating Adaptation and Resilience into Transition Plans*.
- The WBCSD's *Adaptation Planning for Business – Navigating uncertainty to build long-term resilience*.

Nature and Biodiversity

Nature-related actions and dependencies can be integral to an entity's transition and adaptation planning depending on the sector and geographies involved. In these cases, integration of nature-related risks and opportunities into transition planning, including to avoid or reduce adverse impacts or to secure nature dependent materials, enables an entity to start managing its transition and its exposure to key nature-related risks in an efficient way. This could include assessing whether the entity's transition planning satisfies relevant sector or general third-party standards, or taxonomy "do no significant harm" requirements as regards nature – including biodiversity, ecosystems and ecosystem services.

Evidence that the entity has conducted a risk and opportunity assessment aligned with the TNFD LEAP approach may indicate that it is starting to manage actively any nature-related dependencies and risks and to make use of nature-based solutions and efficiencies in its transition. Application of science-based targets for nature, time-bound goals, and clear governance mechanisms may also demonstrate credible ambition and transparent accountability. Initiatives on the integration of nature into transition planning include work by the IFRS Foundation on disclosure of risks and opportunities associated with biodiversity, ecosystems and ecosystem service mean expectations are likely to develop over coming years.

Relevant resources include:

- Taskforce on Nature-related Financial Disclosures, *Guidance on the identification and assessment of nature-related issues: the LEAP approach*.
- Guidance from UNEP FI, MSCI, UN PRI, and the GFI, which offer sectoral insights, metrics, and engagement strategies.
- ICMA's *Sustainable Bonds for Nature – A practitioner's guide*.
- *UK Environmental Improvement Plan – expectations for nature-positive pathways*.

Offsetting

Voluntary use of high-quality carbon credits by entities in high-emitting sectors can be a useful addition to implementation actions to decarbonise operations, supply chains and products. An entity may include within its transition planning the purchase of voluntary carbon credits, for example, to offset residual emissions, to demonstrate Beyond Value Chain Mitigation alongside implementation actions, or to support carbon insetting to reduce emissions in its value chain. When used transparently, and alongside substantive decarbonisation efforts, voluntary carbon credit use can play a constructive role in supporting wider climate and nature outcomes.

In these instances, an entity should have robust governance mechanisms in place to ensure that carbon credit use is proportionate, and carbon credits are high quality (for example, to meet the Criteria of additionality, permanence and no double-counting, and to implement tracking and robust independent validation and verification). Past (justified or unjustified) criticism of the quality and market uses of voluntary carbon credits means that transparent accountability in respect of governance mechanisms relating to the use of carbon credits in transition planning will be particularly important. The entity's use of offsets should be considered on a gross basis, both in terms of purchasing and retiring (i.e. net figures for carbon emissions/targets should not be used without a clear breakdown of underlying emissions/targets).

There is scope in future for more strategic use of offsetting within credible transition planning. Over time and as more pilot projects progress, transition credits could play a valuable role by providing an income stream that mitigates lost revenue arising from early retirement of high-emitting coal-fired power stations and other fossil fuel assets.

Relevant resources include:

- The ICVCM's *Core Carbon Principles and Assessment Framework*.
- The VCMI's *Claims Code of Practice*.
- The University of Oxford's *Principles for Net Zero Aligned Carbon Offsetting*.
- Carbon credit ratings agencies.
- Carbon credit insurance policies.
- ICMA's staff paper *Understanding the opportunity from carbon markets for sustainable finance and the wider market*.

3. Interpretive Guidance

3.1 Credible Corporate Pathways and Credible Reference Pathways

This section explains the Guidelines' requirements in relation to ambition and target setting, and the reference methodologies to be used for this. Assessors will need to consider the extent to which the scenarios, pathways, or taxonomies qualify as Credible Reference Pathway(s) and thus can be used in a Credible Corporate Pathway.

Credible Corporate Pathway means a corporate transition pathway that aligns with a Credible Reference Pathway or is aggregated from more than one Credible Reference Pathway and is matched to the entity's business, geographies and sectors.

Credible Reference Pathway(s) means any publicly available science-based models, scenarios, pathways, taxonomies or other methodologies compatible with the common average temperature goal of the Paris Agreement and that represent:

- i. global temperature averages including across a sector or sectors; or
- ii. regional or national pathways (multi-sector or sector pathways).

Any EMDE regional or national pathway or taxonomy may take account of the longer decarbonisation timeframe contemplated under the Paris Agreement.

The Guidelines reference the Paris Agreement's average global temperature goal of holding the increase in global average temperature to well below 2°C while pursuing efforts to limit it to 1.5°C²⁷. The principle of common but differentiated responsibilities and respective capabilities applies. The Paris Agreement recognises that developing country emissions will take longer to peak, and that expectations of achieving net zero for these countries fall into the second half of this century as opposed to by 2050²⁸.

The Guidelines anticipate that entity-level targets and pathways should be determined using available science-based reference pathways compatible with the Paris Agreement global average temperature goal of well below 2°C. Reference pathways for entities based in or with operations in emerging markets and developing economies may take account of the longer decarbonisation timeframes contemplated under the Paris Agreement.

Types of Credible Reference Pathways:

i. Global scenarios and sector pathways

Global models falling within the definition of Credible Reference Pathways have typically offered the most credible benchmark for target setting and transition planning by entities which operate across a wide range of jurisdictions, or which hold similarly dispersed portfolios of operating assets. Examples of these models include International Energy Authority (IEA) pathways such as the IEA Net

²⁷ Article 2.1(a)

²⁸ Article 4.1

Zero Emissions scenario, Transition Pathway Initiative pathways, UNEP's One Earth Climate Model sectoral pathways, Climate Bonds Initiative sectoral pathways and the methodologies of the Science Based Targets Initiative (SBTi)²⁹.

In assessing the use of pathways that represent a global average, consideration should be given to the fact that, depending on local and sectoral circumstances, entities in developed markets may generally be expected to decarbonise more rapidly than the average, and entities in emerging markets more slowly. Specific EMDE-focused global pathways may be applied (such as the IEA's Sustainable Development scenario, used in the IEA's 'Clean Energy Investments in EMDEs' model, which was developed by reference to the Paris Agreement).

ii. National or regional sector pathways

Increasingly, more granular regional and national sector pathways are being developed for application in advanced economies as well as in EMDE markets. Pathways may vary significantly by sector and geography, as the ability to transition may be affected by energy systems, underlying technologies and socio-economic issues. Global scenarios and models representing global sector averages may be less useful for entities with operations focused on a few countries or primarily in EMDE.

In these instances, science-based national or regional-level sector pathways or taxonomies may be more appropriate. These may allow for longer timeframes for decarbonisation, mitigating technological and socio-economic challenges for the sector(s) in the relevant country or region. Repositories of regional and national scenario and sector pathways are becoming available. For example, the Rocky Mountain Institute (RMI) transition pathways repository, which launched in 2025, enables searching by reference to temperature alignment.

National or regional sector pathways are not available everywhere. Where they do exist, some national and sector pathways or technology maps do not have an underlying global carbon budget assumption and therefore cannot be accurately mapped to a temperature rise trajectory. Assessors will need to consider whether particular pathways or roadmaps meet the definition of Credible Reference Pathway.

²⁹ Annex 1 of ICMA's *Climate Transition Bond Guidelines* (2025) provides an illustrative and non-exhaustive list and an overview for the existing official sector and market-based taxonomies, pathways and roadmaps to help issuers identify the relevant sources. ICMA also provides a 'Methodologies Registry' which is a list of tools to specifically help validate that emission reduction pathways are "science-based".

Managing imprecision

It may not always be feasible to calculate temperature alignment precisely or with the information currently available. An assessor may need to accept some inherent imprecision of temperature alignment computations informing a Credible Corporate Pathway. In practice, some users may choose to apply multi-scenario and multi-metric approaches leveraging global and regional or national sector pathways in navigating these issues.

When Credible Reference Pathways are not compatible with well below 2°C

Where a scenario, pathway or taxonomy is used as a basis for a Credible Corporate Pathway that is not aligned with a well below 2°C outcome, or cannot be explicitly mapped to the broader Paris compatibility objective, the rationale for the selection and its implications should be available. This should include an explanation of how the selected Credible Corporate Pathway represents a meaningful transition of the entity's business within the Guidelines.

Changes to Credible Reference Pathways

Credible Reference Pathways used in the development of a Credible Corporate Pathway may be updated or changed periodically. The impact of any change should be reflected in revisions to the Credible Corporate Pathway when the entity next undertakes a revision of its business strategy or produces a new edition of its transition plan.

3.2 Evidencing and Monitoring Assessment Factors

Assessment Factors may be evidenced through public financial and sustainability reports or through direct reports provided to the capital provider. The capital provider may also draw on information from external sources including third-party data providers.

Existing disclosure frameworks (such as IFRS S1 and S2, the European Sustainability Reporting Standards, the TCFD framework and the TPT Disclosure Framework) may be useful mechanisms for driving disclosure that evidences the Assessment Factors and any relevant Contextual Factors, but using such frameworks is not a prerequisite for meeting the Assessment Factors.

Information should be clear, balanced, detailed and data-driven where possible. Assessors should balance demand for detailed information with what is feasible for entities in jurisdictions with limited market data, and some estimation methodologies and proxy data may have to be used.

The cadence and format of disclosure will vary based on the nature of the entity, the investment and the asset class. The following points reflect emerging best practice for how an entity could transparently disclose against Assessment Factor Criteria:

- have a clear and consistent channel for annual reporting, whether through public or private disclosure to capital providers;
- provide at least qualitative commentary as a starting point, with quantitative information wherever possible;
- align reporting with relevant jurisdictional regulatory requirements and market expectations, where applicable; and
- produce a plan that is consistent with, or progressively aligning to, the TPT Disclosure Framework or an alternative recognised transition plan disclosure framework.

In some cases, due to practical, legal or information constraints, the entity may not be able to provide all the evidence required. This can be a particular issue in some EMDE markets where disclosure expectations are relatively immature, or for SMEs. In instances where direct data is not available, the capital provider may consider proxies, qualitative narratives or third-party estimates where these respond to the substance of the criterion and are specific to the entity. Sector average data should generally be avoided. Where there is incomplete data, gaps should be clearly identified.

The capital provider will wish to periodically assess the sufficiency of the entity's approach and progress against its interim targets. The frequency of monitoring and which data points require most frequent monitoring is at the discretion of the capital provider. Monitoring could align with existing credit review cycles on an annual basis, be triggered by material changes that affect the entity's ability to meet its transition goals (for example, significant change to business structure or methodology) or be based on a proportionate, risk-based approach (for example, more regular monitoring of entities in high-emitting sectors).

Where significant issues arise in implementation, disclosure as to the causes of the lack of progress and how the entity proposes to correct matters within a reasonable period is appropriate. Any such case may result in more regular monitoring and reporting. For discussion of data and information considerations for all entities, including entities within EMDEs, further discussion of the use of qualitative or quantitative proxies and the relevance of corporate climate assessments, Second Party Opinions and assurance please see the relevant sections within the Implementation Handbook.

3.3 Materiality

This section explains what is meant by materiality for the purpose of the different contexts in which it is used in the Guidelines. When applying materiality, both qualitative and quantitative aspects that would reasonably influence the decisions of investors or lenders may be relevant.

Where the term "**material**" or "**materiality**" is used (for example, in relation to information or risks) it means an issue or fact that could reasonably be expected to influence the decisions that investors or lenders or other creditors (together "capital providers") take in relation to that entity in applying the Guidelines.

Materiality is also used in the following contexts:

- "**Financially**" **material** means that an issue could affect future cash flows or influence investor decisions; it may also be determined by reference to the entity's threshold for financial materiality used for its annual report and accounts.
- **Material emission sources** should be determined using the definition and guidance on materiality set out in the methodology used for calculating and reporting those emissions. If no materiality definition and guidance are provided in the methodology used, another well-known methodology such as the Science Based Targets Initiative (SBTi)³⁰ or CDP³¹ which addresses materiality may be used.

When considering materiality, assessors should consider whether there are facts, circumstances or risks relating to or affecting an entity or operations which may be individually immaterial but when

³⁰ Science Based Targets Initiative (SBTi)

³¹ Carbon Disclosure Project (CDP) (annual updates), *Disclosure Framework and Reporting Guidance*

considered together may be material³². They may consider reputational or “social licence” issues in addition to those with a more immediate direct financial consequence or regulatory or legal liability risk.

3.4 Environmental and social risks

This section addresses the identification, avoidance, management and mitigation of environmental and social risks and adverse impacts, including in relation to just transition. Issues relating to nature and biodiversity are addressed in the Nature and Biodiversity Contextual Factor.

An entity's credible ambition and transition planning may involve major changes in operations, suppliers and products. This may require it to manage a wide range of related issues across its asset base with the need for sensitive stakeholder engagement.

Some of these issues will be key dependencies. However, others may not be sufficiently significant to the deliverability of transition implementation actions to amount to dependencies but may remain relevant to the capital provider. They are captured under Recommended Criterion 2.5. In certain jurisdictions these will be addressed through existing regulatory requirements, and they are also likely to engage the environmental and social policies of financial institutions or arise under fund investment objectives.

The risks and impacts can take various forms, for example:

- Climate or environmental risks/sensitivities to be managed through the entity's transition planning. Examples include an agri-business implementing water efficiency measures to tackle resource issues, or assessment and design processes to avoid or mitigate impacts on protected species or cultural resources.
- Where dependencies intersect with environmental or social risks, entities should seek to manage and mitigate these risks and dependencies in a way that recognises the inter-relationship. For example, management of existing contamination on land used for new process lines, or addressing community concerns may be important to the process, timing and terms of any necessary permitting.
- Wider social or just transition risks or impacts can arise as an entity closes facilities or processes or requires new skillsets, affecting its own workforce and community and those of its suppliers. This can include management of its contribution to national or regional exposure to similar issues.

Relevant resources include:

With regards to overall environmental and social risks and impacts:

- *The Equator Principles*, IFC Performance Standards, and World Bank EHS Guidelines.
- *EBRD Performance Requirements* and relevant legal and regulatory frameworks.

³² For example, a material issue could arise from the aggregation of smaller dispersed emission sources or a collection of disparate risks which individually are not material but threaten the same outcome (for example supply chain disruption) and therefore could be considered material in the aggregate.

- *Do No Significant Harm and Social Safeguard provisions in taxonomies* (e.g. European Commission's Official Technical Guidance on DNSH).
- *ICMA's Harmonised Framework for Impact Reporting*.

With regards to just transition risk and impacts:

- Impact Investing Institute's *Just Transition Criteria*, which provides product-level guidance and metrics.
- The PRI's Guide for Investor Action, which outlines strategic and engagement approaches.
- Tools from the Institutional Investors Investor Group on Climate Change, Amundi and Clifford Chance, the World Bank, the Grantham Research Institute, the TPT, and the Global Reporting Initiative, offer practical checklists, engagement templates, taxonomies and just transition metrics.

Glossary

Activity means an activity or project that supports an entity in relation to its transition.

Assessment Factors are the evidence points used to determine whether the Principles of the Guidelines have been met. Capital providers should use these Assessment Factors in all cases to evaluate whether an entity's transition planning is sufficiently credible for the associated finance to qualify as transition finance.

Carbon insetting means reducing a company's carbon emissions by investing in emission-reduction projects within its own supply chain or value chain, usually via a credit-based mechanism. Unlike carbon offsetting, which funds external projects, insetting focuses on actions that benefit both the climate and the company's operations, such as sustainable farming, renewable energy, or reforestation with suppliers.

Capital providers are individuals or institutions that allocate financial resources – such as equity, debt, or other forms of capital – to entities or activities with the expectation of a financial return.

Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC principle) means that all countries share responsibility for environmental protection, but obligations vary by historical impact and current capacity. Stated in Article 2(2) of the Paris Agreement, it ensures developed nations lead in cutting emissions and providing finance and technology, while developing nations act within their means, increasing efforts as their capabilities, resources, and access to technology improve over time.

Contextual Factors means matters, connected with the entity's transition planning and arising from its business activities and operating context, that may be relevant to a capital provider's assessment of the entity. This may be because they give rise to material risks or impacts or are inconsistent with the investment objectives or the policies of the capital provider.

Core Criteria are criteria specified as core under the Assessment Factors that the assessor should apply to satisfy the Principles.

Credible Corporate Pathway means a corporate transition pathway that aligns with a Credible Reference Pathway or is aggregated from more than one Credible Reference Pathways and is matched to the entity's business, geographies and sectors.

Credible Reference Pathway(s) means any publicly available science-based models, scenarios, pathways, taxonomies or other methodologies compatible with the common average temperature goal of the Paris Agreement and that represent:

- i. global temperature averages including across a sector or sectors; or
- ii. regional or national pathways (multi-sector or sector pathways).

Any EMDE regional or national pathway or taxonomy may take account of the longer decarbonisation timeframe contemplated under the Paris Agreement.

Dependencies mean matters upon which the entity's ability to undertake implementation actions and meet its interim targets depend. They may be physical or non-physical and may include matters such as technological development, economic trends, policy and regulation, the natural environment, the physical impacts of a changing climate, and dependencies on stakeholders such as the workforce,

customers and the local community. Often, they may be outside the entity's direct control – external dependencies.

Entity means any non-financial natural or legal person engaged in economic activities.

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.

Key dependencies are those Dependencies which have a significant bearing on an entity's ability to deliver on its interim targets.

Long-term Ambition refers to a goal or objective that an organisation aspires to achieve over an extended period, often taking decades to realise.

Material or Materiality: Where the term “material” or “materiality” is used (for example, in relation to information or risks) it means an issue or fact that could reasonably be expected to influence the decisions that investors or lenders or other creditors (together capital providers) take in relation to that entity in applying the Guidelines.

Material emission sources should be determined using the definition and guidance on materiality set out in the methodology used for calculating and reporting those emissions. If no materiality definition and guidance are provided in the methodology used, another well-known methodology such as the Science Based Targets Initiative (e.g. SBTi or CDP) which addresses materiality may be used.

National or regional sector pathway means a strategic framework or plan to outline how specific economic sectors can transition at national or regional level to meet net zero ambitions and engage with transition opportunities.

Principles means the four guiding Principles of credible transition finance, namely Credible Ambition, Action into Progress, Transparent Accountability, and Addressing Dependencies.

Recommended Criteria are criteria specified as recommended under the Assessment Factors that the assessor may consider, particularly for already mature entities in mature markets or as the entity matures over time.

Transition Finance is the financing of transition activities or credibly transitioning companies. Transition Finance can be focused on individual projects or defined activities (activity-level) or may apply in respect of the entity as a whole (entity level).

**Transition
Finance
Council**



**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