

# Transition Finance Guidelines

## Consultation on entity-level Transition Finance Guidelines

18<sup>th</sup> August 2025

# Contents

Executive Summary .....	3
<b>1. Context .....</b>	<b>4</b>
1.1 The case for Transition Finance .....	4
1.2 The Transition Finance Market Review and the creation of the Transition Finance Council .....	5
1.3 The Transition Finance Classification System .....	6
1.4 What are the Guidelines? .....	7
1.5 Use cases .....	9
<b>2. Responding to the consultation .....</b>	<b>12</b>
2.1 Phased approach and timelines .....	12
2.2 How to respond and who should respond .....	12
<b>3. Framing considerations for credibility and integrity .....</b>	<b>13</b>
3.1 Global interoperability .....	13
3.2 Proportional application for different contexts .....	16
3.3 Addressing alignment to 1.5°C .....	19
<b>4. Principles and Factors .....</b>	<b>21</b>
4.1 Introducing Principles and Factors .....	21
4.2 Principles .....	23
4.3 Universal Factors .....	28
4.4 Contextual Factors .....	37
<b>5. Application of the Guidelines .....</b>	<b>42</b>
5.1 Obtaining information required for assessment .....	42
5.2 Guidance for application to EMDEs .....	43
5.3 Future implementation guidance .....	44
5.4 Consequences of failure to perform .....	45
<b>6. Glossary .....</b>	<b>46</b>
<b>7. Appendices .....</b>	<b>48</b>

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## Executive Summary

Transition finance must play a central role in supporting a net zero global economy. While investment in mature green sectors is growing rapidly, many transitioning sectors, such as heavy industry, transport and agriculture require capital to decarbonise.

Supportive sectoral policy is essential to increase investable opportunities, but investors also need robust tools to assess whether entities are credibly transitioning and in a way that is financially viable. Currently, there is no consistent framework capable of application across asset classes for identifying and evaluating credible transition finance at entity-level.

The Transition Finance Council, co-launched by the City of London Corporation and HM Government, is developing Transition Finance Guidelines (the Guidelines) to help address this gap. Our aim is to work with interested markets to define the most effective guidelines to support capital allocation to transitioning entities across different asset classes and jurisdictions. This consultation is a first step in that process.

The draft Guidelines are voluntary and designed to complement existing global and domestic frameworks. They are interoperable with key disclosure frameworks – such as those developed by the Transition Plan Taskforce (TPT) and International Sustainability Standards Board (ISSB). Those frameworks help companies communicate their transition plans; the Guidelines build on this with a focus on how to assess the credibility of an entity's ambition, and near-term transition planning and progress. They can also be applied where a formal transition plan is not yet in place or disclosed and provide minimum expectations for credible transition finance.

The Guidelines set out four Principles that each address a dimension of credibility. These are supported by Universal Factors containing practical criteria which are evidence points for assessing whether the Principles are satisfied. These are designed to be flexible, proportionate, and applicable across asset classes, capital types, and jurisdictions - including for emerging markets and medium-sized entities. Acknowledging data gaps, the Guidelines encourage use of the best available information and transparency around dependencies and how these are being tackled. Additional, Contextual Factors may also apply depending on the profile of the transitioning entity (for example, in relation to environmental and social risks and impacts).

This consultation, open for one month from 18th August 2025, seeks feedback on the structure, content and usability of the Guidelines. A second consultation later in 2025 will include revised Guidelines taking account of feedback from this process, with additional asset class specific content and case studies. The Council is aiming to publish the final form Guidelines in 2026.

We are grateful to Council working group members for all their inputs in the preparation of this Consultation, to the Secretariat, and to everyone who participated in our roundtables.

# 1. Context

## 1.1 The case for Transition Finance

Transition finance in the broadest sense, incorporates the financial flows, products and services that facilitate an economy-wide transition to net zero consistent with the Paris Agreement. It encompasses both investing in already-commercialised low-carbon technologies, as well as the investment needed for companies in high-emitting sectors to shift toward lower-carbon, more sustainable business models.

According to Bloomberg New Energy Finance (BNEF), global energy transition investment reached £1.64 trillion in 2024<sup>12</sup>, compared to £936 billion invested in fossil fuel supply<sup>34</sup>. Over 90% of this capital went to mature green sectors such as renewables, batteries, and electrified transport, where technologies are already commercially viable and investment frameworks well-established. Other transitioning sectors, such as heavy industry, transport, agriculture and construction, remain under-represented despite their material contribution to global emissions.

Enabling finance to flow to investable opportunities in these high-emitting sectors plays an important role in facilitating an economy-wide transformation aligned with the goals of the Paris Agreement. Consistent with the approach of the Transition Finance Market Review, the focus of this consultation is on finance to transitioning sectors and entities, particularly those that are high-emitting or hard to abate.

One of the challenges to the transition of these sectors remains the lack of consistent approaches to classifying and assessing transition finance. Without credible assessment frameworks, both capital providers and entities risk exposure to greenwashing claims, and capital may fail to flow to where it is most urgently needed for systemic transition. Obviously other challenges also exist, including a need for sector policy to support transition and demand creation; these are more within the remit of governments and policy makers.

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<sup>1</sup> BloombergNEF (2025), [Global Investment in the Energy Transition Exceeded \\$2 Trillion for the First Time in 2024](#)

<sup>2</sup> OECD 2024 exchange rate applied, OECD (2025), [OECD Data Explorer](#)

<sup>3</sup> IEA (2025), [World Energy Investment](#)

<sup>4</sup> OECD 2024 exchange rate applied, OECD (2025), [OECD Data Explorer](#)

## 1.2 The Transition Finance Market Review and the creation of the Transition Finance Council

The Transition Finance Market Review (the Review) was commissioned by HM Treasury and the Department for Energy Security and Net Zero to look systematically at the barriers to scaling transition finance, and to propose solutions to industry, government and regulators. The Review, published in October 2024, set out a series of recommendations to scale high-integrity transition finance and establish the UK as a global hub for this activity<sup>5</sup>.

The Transition Finance Council (the Council) was launched in February 2025 by the City of London Corporation and HM Government. As part of its work to drive forward and build upon the Review's recommendations, the Council has worked on market-led Guidelines (building on initial work begun through the Review) designed to encourage global market alignment on classifying credible transition finance.

The timeline below indicates some of the key milestones the Council is working towards.

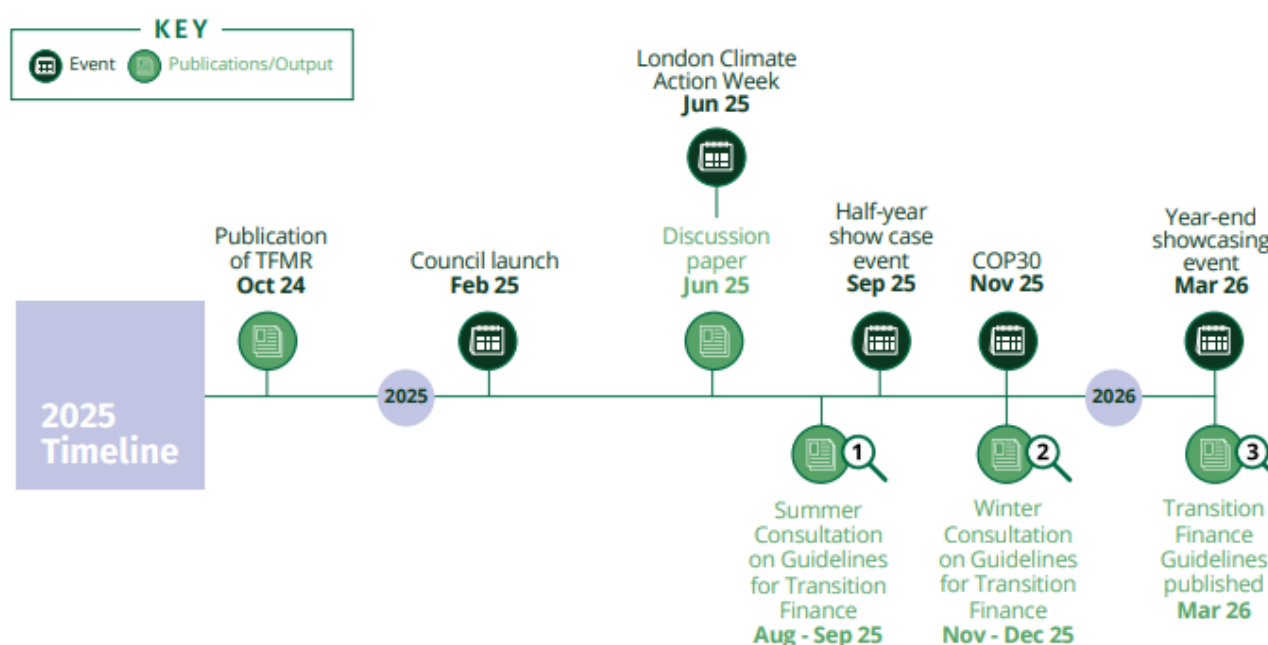


Figure 1, Timelines of the Transition Finance Council

<sup>5</sup> TFMR (2024), [Transition Finance Market Review](#)

## 1.3 The Transition Finance Classification System

The Council's work on credibility and integrity builds on the classification approach set out in the Review. To categorise the different types of transition finance, the Review proposed a Transition Finance Classification Systems (TFCS), (see Figure 2), informed by the transition strategies developed by the Glasgow Financial Alliance for Net Zero (GFANZ)<sup>6</sup>. The Council's work on the Guidelines developed from these classifications.

Categories of transition finance	Activity-Level	Entity-level
Climate solutions and enablers	<b>Category 1</b> Financing climate solutions activities and activities that enable climate solutions	<b>Category 2</b> Financing 'pure play' companies with a minimum expected threshold* of revenue or assets within a portfolio are derived from climate solutions and enabling activities
Aligning and aligned	<b>Category 3</b> Financing activities which support an entity aligning to a credible decarbonisation pathway	<b>Category 4</b> Financing entities that are aligning/aligned and result in abatement in line with a credible transition strategy
Early retirement of high-emitting assets	<b>Category 5</b> Financing activities which lead to early retirement of high-emitting assets which would otherwise continue to produce emissions	

\*We recognise there are different minimum expected thresholds used across the market. We may return to assess these differences and consider them in future work.

Figure 2, The Transition Finance Classification System

**This August 2025 consultation is focused on Guidelines that support transition finance for aligned/aligning entities (Category 4)<sup>7</sup>.** Stakeholder engagement and feedback to the Council to date has highlighted that global finance tends to flow in greater volume at the entity-level<sup>8</sup> than at project or activity-level, making it a key area for unlocking real-world impact<sup>9</sup>. However, entity-level finance that is classified as transition themed is still relatively underdeveloped.

<sup>6</sup> GFANZ (2023), [Scaling Transition Finance and Real-Economy Decarbonisation](#)

<sup>7</sup> This classification system drew on GFANZ's definition of aligned and aligning entities.

<sup>8</sup> Entity-level transition finance refers to financing directed toward a company or other legal entity based on its overall transition planning 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.

<sup>9</sup> The Review heard from various stakeholders that the greatest potential for scaling transition finance lies with meeting entity-level demand. See page 29 of the Review which discusses the difficulty of application to entity-level.

**Activity-level financing:** means the use-of-proceeds financing or investment in an identified activity (or activities) or project.

**Entity-level financing:** means investment in or general-purpose financing of any non-financial, natural or legal person engaged in economic activities.

The concept of **aligned and aligning entities** was used by the Review and originally came from the Review's engagement with earlier GFANZ work. There is likely to be greater demand for financing from entities that are aligning and therefore earlier in their transition journey than entities who are already aligned to a credible transition pathway. Aligned and aligning entities are likely to be at different stages in development and implementation of their transition. The draft Guidelines do not currently provide a difference in approach between aligned and aligning entities, which may be used for both.

The Council has prioritised building out the Guidelines to support credible finance at the entity-level, focusing on non-financial entities and excluding sovereigns. Given the stage of the global transition, our focus to date has been primarily on aligning entities rather than aligned entities.

## 1.4 What are the Guidelines?

The draft Transition Finance Guidelines aim to establish a continuous and reinforcing cycle between transition planning and the mobilisation of transition finance. An entity's transition planning acts as a foundational input for application of the Guidelines, which then facilitate the mobilisation of finance to support credible transition activities. This enables more effective transition progress, which in turn generates insights that inform and strengthen future transition planning and action.

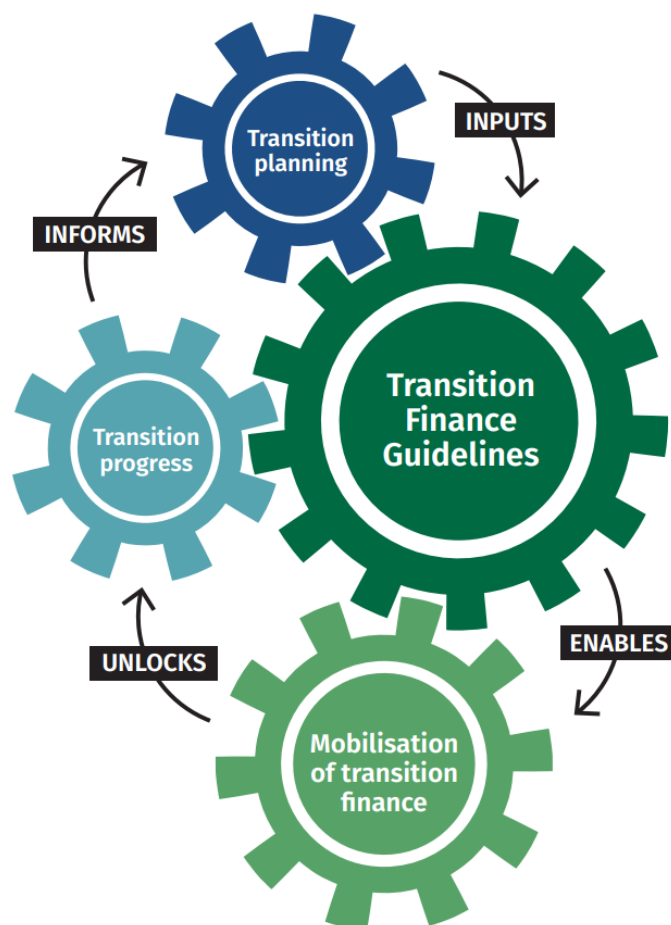


Figure 3, Mechanism for mobilising transition finance

The Guidelines are a voluntary framework consisting of a set of ‘Principles’ and ‘Factors’ which aim to create common minimum expectations for users to confidently distinguish what is and what is not credible transition finance.

The ‘**Principles**’ address different dimensions of credibility and *what must be true* for the finance to be credible. The ‘**Universal Factors**’ are the practical components that can tangibly evidence that the Principles are met. “**Contextual Factors**” are matters arising from the specific nature of the entity or its home jurisdiction that may be material to consider in addition to the Universal Factors. Additional content will be added before the Winter consultation in the form of asset class specific guidance and case studies (samples are provided in the Appendix). Figure 4 shows the Principles and Factors relevant for assessing transition finance for transitioning entities.

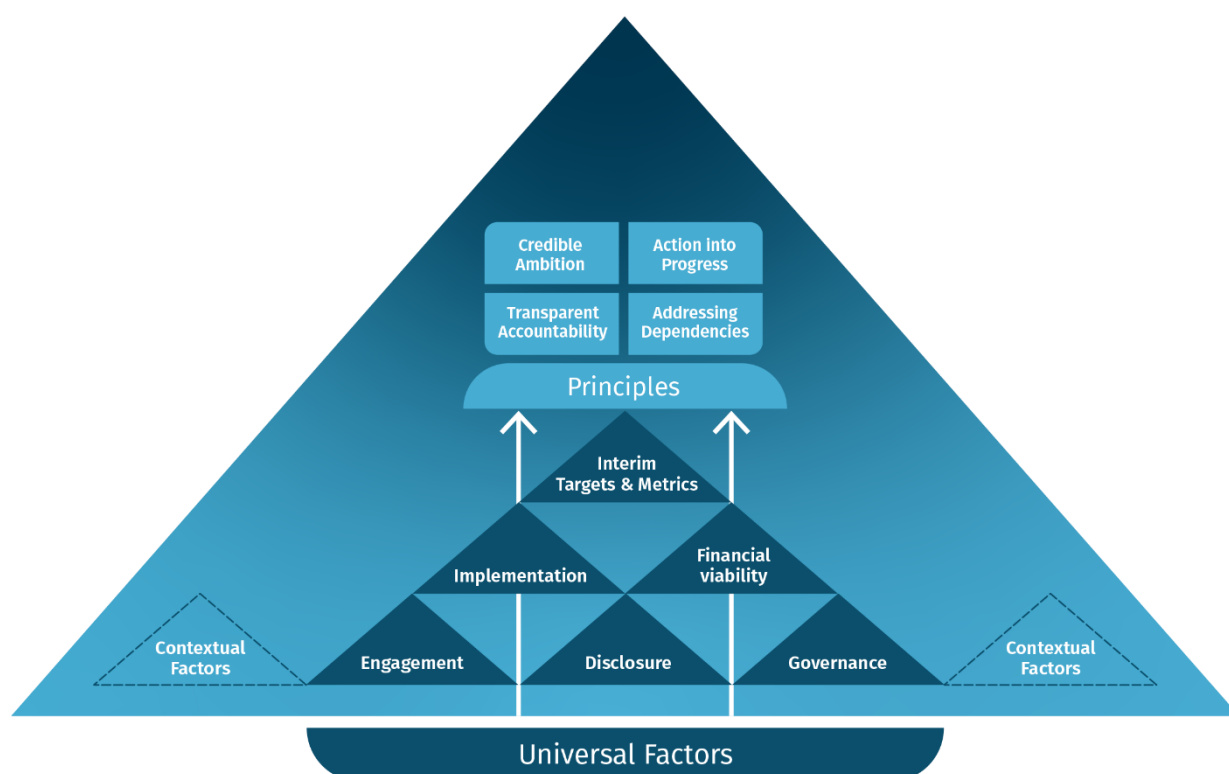


Figure 4, The Principles and Factors

The Guidelines are complementary to the TPT Disclosure Framework, adding normative expectations regarding ambition and action. They can also be used for entities that do not yet have fully developed and disclosed transition plans, providing a basis for assessing credibility of the entity’s transition planning and action. They accommodate a variety of starting points and contexts, including for medium-sized enterprises and entities in emerging markets and developing economies (EMDEs). Though the Principles are likely to remain static, the detail within the Universal Factors is expected to require more regular review, to ensure they remain in line with market developments and changing expectations.



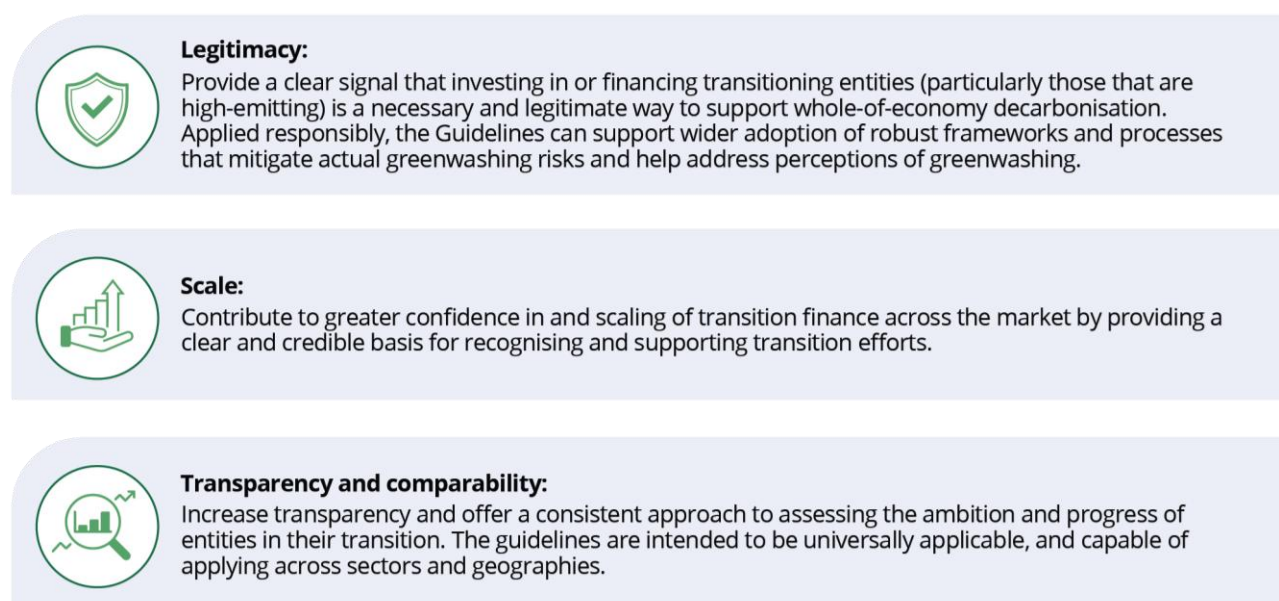
The Principles and Universal Factors can also be used in relation to project or activity-level finance where the capital provider wishes to confirm that the operator or sponsor group has a credible overall transition plan. In this context, users may wish to apply the Guidelines more flexibly since the financing is more narrowly focused. Activity-level considerations would also be required. These are beyond the scope of this consultation but were discussed in Chapter 1 of the Review (p.30)<sup>10</sup>.

To review the Principles and Factors and the detail within them, please see Section 4.

## 1.5 Use cases

As scenarios associated with failure to achieve the Paris Agreement goal are better understood, corporate transition planning is likely to become a more common input to investment decision making. For entities in high-emitting sectors, differences in ambition and performance within the same sector could begin to impact investor interest and start to affect cost of capital<sup>11</sup>. There is growing interest on the sell side to develop, and on the buy side to invest in, transition themes but concern about greenwash risk remains. For governments, there is value in being able to monitor the trajectory of transition related investment at entity level to track progress against carbon budgets or national transition plans.

Use of a foundational set of Guidelines across the market has the potential to have broad policy and market benefits of the type summarised in Figure 5<sup>12</sup>.



*Figure 5, Market benefits from using the Guidelines*

<sup>10</sup> TFMR (2024), [Transition Finance Market Review](#)

<sup>11</sup> See, for example, the ECB proposed climate change factor in the Eurosystem collateral framework that is designed to protect against declines in the value of collateral accepted in refinancing, in the event of adverse climate related transition shocks (European Central Bank (2025), [“ECB to adapt collateral framework to address climate-related transition risks”](#).)

<sup>12</sup> A recent FCA letter relating sustainability linked loans noted the value of alignment of approaches to transition finance, see <https://www.fca.org.uk/publication/correspondence/sustainability-linked-loans-market-2025-letter.pdf>

Different market participants will have their own specific reasons for financing transitioning entities and for wanting to classify that finance or investment as transition related. For high-emitting companies, a common benchmark of investor and lender base case expectations should be a valuable input to transition planning and investor engagement. Banks may be aiming to meet sustainable finance targets, support client relationships, or develop credible products that respond to borrower and/or buy side interest. Pension funds focused on managing long-term investment risks may be ensuring their portfolios are resilient to the financial impacts of climate change. The list below, though not exhaustive, describes some more specific use cases for the entity-level Guidelines.

**Real economy corporates** (for example listed and private companies across different global markets and sectors, including high-emitting sectors)

- Improve awareness of credibility expectations with regards to an entity's transition planning and delivery
- Reduce the expectations gap between investors assessing transition and corporates reporting their plan and progress, potentially improving access to capital.
- Help articulate their transition planning to investors by using the guidelines as a reference baseline

**Asset Owners** (for example pension funds, insurance companies (in their role as asset owners) and sovereign wealth funds)

- Guide capital allocation toward credible entities in high-emitting sectors.
- Support mandate-setting and investment policies using a common reference for transition finance.
- Use as a reference when selecting or screening asset managers, to assess the credibility of their transition finance policies.
- Build confidence in transition finance as a legitimate and scalable investment theme.
- Inform benchmarks or inclusion/exclusion criteria for screening or passive strategies.

**Asset Managers** (for example private market investors, Impact investors and hedge funds)

- Inform security selection and portfolio construction using clear criteria for transition alignment.
- Support stewardship and engagement, providing a credible reference to advocate for better transition plans.
- Increase leverage in engagement by using consistent, principles-based expectations with investees.

### **Credit institutions** (for example commercial and investment banks)

- Act as external market guardrails for institutions to build from and reference when creating their own transition finance frameworks.
- Grounding an institution's transition finance framework in the baseline expectations of these Guidelines could support consistent assessment of risks and opportunities.
- Underpin the analysis of their client base and the evolution of the share of clients that are credibly transitioning. This should bring more confidence and credibility when institutions are calculating and reporting on performance against sustainable finance targets. In turn, this could increase banks' appetite to include finance to credibly transitioning clients within sustainable finance targets.

### **Insurance Providers** (for example re/insurers, development insurers, and insurance-linked securities arrangers)

- Support the development and scaling of innovative climate risk transfer instruments, which can facilitate capital flows to EMDEs and vulnerable sectors.
- Foster collaboration with capital markets, MDBs, and governments to de-risk investments in high-emitting sectors transitioning to low-carbon models.

### **Regulators**

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

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

- Help PFIs assess opportunities to scale participation in transactions relating to transition relevant assets and entities
- Support collaboration with private sector institutions through broad alignment on transition finance principles
- Facilitate the development of innovative financial instruments, particularly for countries and corporates in EMDEs facing capital access challenges.

### **Governments**

- 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
- Understand barriers and dependencies in relation to credible transition strategies of corporates, which can inform public policies and national roadmaps

## 2. Responding to the consultation

### 2.1 Phased approach and timelines

The Council's ambition is to work with both UK stakeholders and those in other markets to define effective internationally applicable Guidelines to support capital allocation to transitioning entities. This consultation is part of a phased approach to obtain views nationally and internationally and to enable refinement and finalisation of the Guidelines.

This current Summer 2025 consultation focuses on how the Guidelines can be applied to entities that are transitioning. A second Winter 2025 consultation, aligned with COP30, will provide an updated draft responsive to feedback in the first consultation and provide a second opportunity to gather further global views on these entity-level guidelines (plus some additional content likely focused on asset class related guidance and case studies, though the exact details are yet to be determined). The Council is planning to follow the following approximate timeline:

1. First consultation on entity-level Transition Finance Guidelines (*open for feedback 18<sup>th</sup> August to 19<sup>th</sup> September*)
2. Second consultation on entity-level Transition Finance Guidelines (*open for feedback early November 2025 to early January 2026*)
3. Finalised entity-level Transition Finance Guidelines published in March 2026

### 2.2 How to respond and who should respond

This Summer consultation will be open for feedback until 12pm on the 19<sup>th</sup> of September 2025. The responses are being collected via an online form found [here](#). It is not necessary to answer all questions.<sup>13</sup> This consultation is for a broad audience including real economy and financial services sectors and beyond, including:

- Real economy corporates
- asset owners
- asset managers
- credit providers
- financial service providers
- regulators
- civil society and universities
- public financial institutions (PFIs) and multilateral development banks (MDBs)
- governments and international institutions

We welcome responses from all where the questions are relevant to their work and experience.

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<sup>13</sup> Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

## 3. Framing considerations for credibility and integrity

### 3.1 Global interoperability

The Guidelines envisage use of national sector pathways, roadmaps and taxonomies, science-based targets and internationally respected methodologies to demonstrate compatibility of approach with the goal of the Paris Agreement. They are also informed by ISSB standards, the TPT disclosure framework and other international standards and frameworks. In this initial consultation, we have highlighted some of the main interlocks and references used below.

#### **Interoperability with the UK SDR and the Sustainable Improvers label**

The Guidelines are designed to work with the UK's Sustainability Disclosure Requirements (SDR), particularly the Sustainable Improvers label, which relates closely to transition finance and is also principles based. This label recognises investment products that support entities on a credible path toward improved sustainability outcomes. This is different from other SDR labels that focus on already-sustainable assets or measurable impact<sup>14</sup>. While there is clear alignment of purpose, classifying an investment as credible transition finance is not the same as qualifying a product for an SDR label. The Guidelines do not replicate all elements required for SDR labelling. Whereas the Sustainable Improvers label focuses on asset managers' product-level disclosure, these Guidelines address the credibility of transition finance more broadly, including across capital allocation, and engagement.

#### **Interoperability with the EU**

The Guidelines are also intended to work alongside the EU's Sustainable Finance Disclosure Regulation (SFDR), which at the time of writing is undergoing review of its structure and potential transition-related categories. While SFDR currently presents challenges for classifying transition finance under Articles 8 and 9, an opportunity for greater alignment may arise as revisions progress. The Council would welcome discussions with EU colleagues on interoperability.

#### **Interoperability with the ISSB Standards and transition plan disclosure frameworks**

Though the Guidelines are not a disclosure framework, they are informed by transition plan disclosure frameworks, such as those published by the Transition Plan Taskforce (TPT) and GFANZ, as well as the broader disclosure framework published by the ISSB. The UK Government's consultation seeking views on transition plan requirements has also been considered<sup>15</sup>.

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<sup>14</sup> Department for Business and Trade (2025), [UK Sustainability Reporting Standards guidance and documents](#)

<sup>15</sup> Department for Energy Security & Net Zero (2025), [Transition plan requirements consultation: Consultation seeking views on implementation routes for transition plan requirements](#)

The graphic in Figure 6, [Mapping the elements from the TPT framework into the Council's Guidelines](#) shows at a high level how the elements of the TPT Disclosure Framework and the Principles of these Transition Finance Guidelines connect. A more detailed mapping between these Guidelines and the TPT sub-elements will be part of the next consultation.

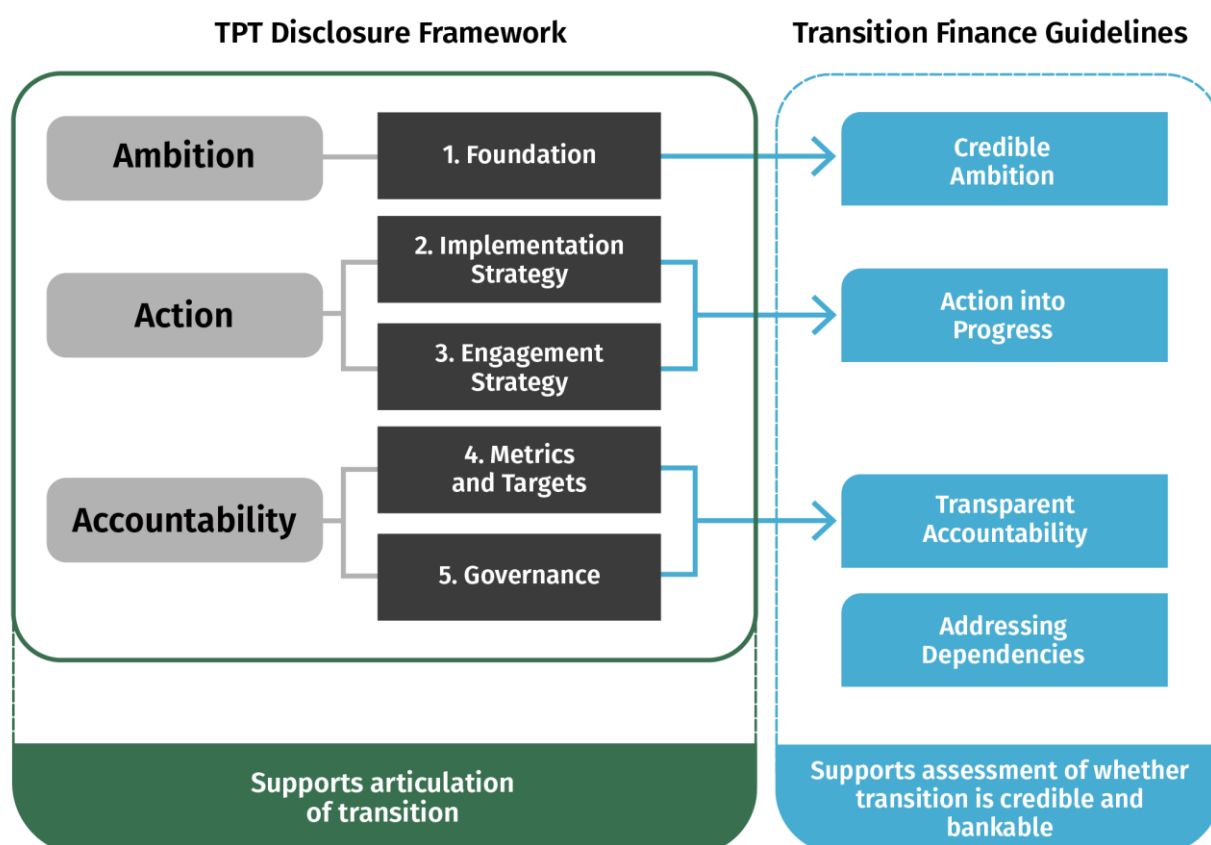


Figure 6, Mapping the elements from the TPT framework into the Council's Guidelines

An entity that discloses in line with the TPT Disclosure Framework will be able to provide the information required to assess the Principles and Factors within these Guidelines. However, because the TPT's Disclosure Framework is not normative, its use does not guarantee that the entity meets the minimum expectations set out in the Principles and Factors.

The additional value of the Guidelines lies in providing a credibility lens, evaluating not just whether a plan exists, but whether the ambition is strong, the strategy is viable, and there is evidence of meaningful implementation and impact. In this way, the Guidelines serve a complementary function: while disclosure frameworks help entities communicate their plans, these Guidelines support capital providers in judging how credible those plans are.

While many large, listed firms in the UK already disclose transition plans in line with the TPT Disclosure Framework (which the ISSB has now assumed responsibility for<sup>16</sup>), adoption is not yet widespread across much of the global economy. It will take time for transition plans to embed even in the most advanced of markets. The Guidelines reflect this reality, setting expectations for entity level transition finance where a formal or disclosed transition plan may not yet exist. To aid potential users of the Guidelines who also apply the TPT Disclosure Framework, we are developing a more detailed mapping between the Guidelines and the Disclosure Framework which we will include in the second consultation.

### **Interoperability with the Net Zero Investment Framework**

Similarly, these Guidelines should complement the Net Zero Investment Framework (NZIF)<sup>17</sup>. While both approaches aim to assess the credibility of transition planning, they serve distinct, mutually reinforcing purposes. The NZIF was primarily designed to assess the alignment of any existing investments with a net zero by 2050 trajectory. NZIF is especially valuable for portfolio management and stewardship activities, where investors seek to evaluate and engage with companies already within their investment universe.

These Guidelines are intended to create a practical baseline threshold for evaluating investment opportunities and whether they meet minimum characteristics to qualify as a transition investment, to promote capital flow to transitioning entities in high-emitting sectors in advanced and emerging markets. These are the areas where capital is needed to enable real-economy decarbonisation but where some entities may not yet meet the more stringent criteria of 'aligned' or even 'aligning' as defined under NZIF.

In the next consultation we plan to provide a comparison mapping of the Principles and Factors within these Guidelines to the requirements under NZIF.

### **Interoperability with taxonomies**

The UK Government recently announced in its Financial Services Growth and Competitiveness Strategy of July 2025 that it had decided not to proceed with a UK taxonomy<sup>18</sup>. That said, taxonomies remain valuable tools in determining the credibility of ambition of transition finance. While these Guidelines focus on entity-level transition finance, taxonomies are still relevant in relation to activities which entities participate in or operate.

<sup>16</sup> ISSB's guidance developed from the TPT Disclosure Framework (2025), [Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2](#)

<sup>17</sup> The Net Zero Investment Framework (NZIF) is the most widely used guide by investors to develop their individual net zero strategies and transition plans. It is the core publication of the Paris Aligned Investment Initiative (PAII), a collaborative investor-led forum (coordinated by AIGCC, Ceres, IGCC and IIGCC) established in May 2019.

<sup>18</sup> UK Government (2025), [Financial Services Growth and Competitiveness Strategy](#)



Various jurisdictions or regional organisations have developed or are developing taxonomies with a transition focus (for example, ASEAN, Singapore, Australia and China). Many of these countries also use transition plans at entity or municipal/regional level.

These Guidelines contemplate the use of taxonomies that are designed to be compatible with the Paris Agreement as one of several potential types of methodology for assessing the credibility of an entity's transition. The taxonomy applied should be appropriate to the country in which the entity's activity occurs. Where taxonomies are used, they should be applied in a coherent way, including not just the relevant technical screening criteria but also any 'do no significant harm' and 'social safeguards' provisions. A transition taxonomy may contemplate time limits for the operation of an entity's certain activities and/or require assets to be constructed 'transition ready'. Where these taxonomies are applied, the time windows and other requirements they specify should be observed.

### **Interoperability with other widely used frameworks**

Many large entities are often required to meet the expectations of key investor frameworks or satisfy criteria for labelled finance products to access capital for transition objectives. There are several other widely used voluntary market frameworks that we have sought to evolve the Guidelines around and ensure they are not inconsistent with. These include but are not limited to -

- Climate Bonds Initiative (CBI) - '*Navigating Corporate Transitions*' paper (April 2024)<sup>19</sup>
- International Capital Market Association (ICMA) - '*Climate Transition Finance Handbook*' (June 2023)<sup>20</sup>

The Council will continue to consider developments in other global frameworks, including those emerging from the Loan Market Association (LMA) Transition Taskforce, The ASEAN Industry Advisory Panel (IAP), and work in various jurisdictions including Australia, Canada, China, the EU, Japan, Singapore and UAE. Ongoing engagement with international initiatives will help ensure the Guidelines are framed to be globally relevant.

## **3.2 Proportional application for different contexts**

### **Application for EMDEs**

The Guidelines are being developed to work for entities globally. This includes for entities operating in EMDEs. The countries that are often grouped as EMDE category vary enormously and their pathways to net zero will be very different. Some of these countries have relatively modern fossil fuel power generation assets, significant industrial bases providing an important supply chain for global manufacturing sectors, and therefore material emissions. An orderly

<sup>19</sup> Climate Bonds Initiative (CBI) (2024), '[Navigating Corporate Transitions](#)' paper

<sup>20</sup> International Capital Market Association (ICMA) (2023), '[Climate Transition Finance Handbook](#)'



global transition involves successful navigation by all countries, including these, to lower carbon options while maintaining social and economic stability. Transition finance has a role to play here and is the focus of ongoing, sophisticated thinking in many of these markets, including, for example, Singapore, India, China, EU countries, such as Poland, and South Africa.

Where investment is made or finance provided to entities operating in higher emitting emerging markets, there can be additional challenges. For example:

- Growth and development policies and social needs for many emerging market nations are such that expecting gross emissions reduction in the short- to medium-term may be unrealistic. EM countries may have net zero target dates beyond 2050 because of these priorities, having regard to the principle of Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC principle)<sup>21</sup>. More attention should be paid to emissions intensity targets and financial targets.

**Common But Differentiated Responsibilities and Respective Capabilities 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.

- Limited access to high-quality, consistent market data and reporting may make certain metrics and targets harder to establish and track.
- High exposure to physical climate risks, directly because of extreme or sustained adverse weather patterns which may be amplified because of infrastructure limitations.
- Elevated cost of capital is often an issue, associated with currency and other risk issues. The current global financial architecture does not necessarily assess risk in EMDE transactions accurately in all instances, creating frictions.
- The nature of power market and offtake arrangements can involve increased complexity in relation to transition planning that contemplates early wind down of coal fired power asset. This is an area of expertise and ongoing work by multilateral development banks (for example the Asian Development Bank) and relevant markets (e.g. Singapore).

For more detail on the Council's current thinking as to how to apply the Guidelines to an EMDE context, please see Section 5.2. The consultation is an opportunity to draw on expertise in

<sup>21</sup> UNFCCC (2015), [Paris Agreement Article 2.2 references to CBDR-RC principle](#)

these markets to ensure the Guidelines include a practical approach to delivery of factors to evidence ambition and performance<sup>22</sup>.

## Application for SMEs

We anticipate that many SMEs are likely to be too early in their transition journey for these Guidelines to have relevance. However, where SMEs have the potential to meet the requirements of transition finance classification, there are additional frameworks which can support both the capital provider and the entity in obtaining the information needed for assessment. The UK SME Voluntary Emissions Standard<sup>23</sup> (which has been developed by B4NZ<sup>24</sup> and the Broadway Initiative) is designed to align with UK Government procurement policy on carbon reduction plans for major contracts, as well as other public procurement frameworks. By providing a practical and proportionate approach for SMEs to report consistent emissions data, the Standard not only supports compliance with public sector requirements but also strengthens an SME's eligibility for transition finance. Encouraging adoption of this Standard can help secure more uniform and reliable climate-related information across SME's value chains, making it easier for capital providers to identify credible SMEs with the potential to deliver measurable decarbonisation.

Other jurisdictions are also developing frameworks to support SMEs in this space, such as the EU's Voluntary Sustainability Reporting Standard for SMEs (VSME)<sup>25</sup> developed by EFRAG, Malaysia's Simplified ESG Disclosure Guide (SEDG) for SMEs<sup>26</sup>, and the OECD Platform on Financing SMEs for Sustainability<sup>27</sup>, which, while not a formal standard, is also working to overcome barriers to SME sustainable finance. Other initiatives, though not exclusively SME-focused, still provide valuable support to SMEs, including India's BRSR Lite<sup>28</sup>, and Singapore's MAS "Gprnt" platform<sup>29</sup>.

<sup>22</sup> The Council is also working closely with the EMDE Investor Taskforce to ensure collaboration and the exchange of relevant insights. For more information on the work of this taskforce, see [here](#).

<sup>23</sup> Cabinet Office (2025), [Taking account of Carbon Reduction Plans in the procurement of major government contracts](#)

<sup>24</sup> Bankers for Net Zero (B4NZ) (2025), [From Burden to Benefit](#)

<sup>25</sup> EFRAG (2024), [Voluntary Sustainability Reporting Standard for SMEs \(VSME\)](#)

<sup>26</sup> Capital Markets Malaysia (2023), [Simplified ESG Disclosure Guide \(SEDG\) for SMEs](#).

<sup>27</sup> OECD (2024), [OECD Platform on Financing SMEs for Sustainability](#).

<sup>28</sup> CCEW (2024), [Business Responsibility and Sustainability Reporting \(BRSR\)](#)

<sup>29</sup> Gprnt (2025), [Gprnt Announces World's First Nationwide Utility for Sustainability Reporting, Backed by Ant International and MUFG Bank](#)

### 3.3 Addressing alignment to 1.5°C

The importance of a 1.5°C common global average temperature goal under the Paris Agreement has been affirmed very recently by the International Court of Justice in a unanimous advisory opinion on the obligations of states in respect of climate change.<sup>30</sup> However, current Nationally Determined Contributions (NDCs) fall short of even a 2°C global pathway. There is a growing appreciation that actual temperature rise is occurring at a pace not necessarily anticipated and that tipping points risk being passed. Significant and sustained overshoot has become a possibility. Concurrently, the international debate around the Paris Agreement has shifted, contributing to market uncertainty. The position is therefore already challenging at a global level.

There is now a wider appreciation that different sectors and jurisdictions will move at different speeds to decarbonise. This flexibility is inherent at country level by virtue of the CBDR-RC principle although it is not yet well defined. The nature of transition for each country and for high-emitting sectors will depend on their characteristics and starting point, associated temperature alignment pathways and growth and social expectations.

In this context, application of a temperature goal by a corporate entity in relation to its business is complicated, particularly for entities that operate in more than one country or sector. Private sector operations are shaped by the regulatory and policy environment and the energy and infrastructure systems of the countries in which they are located and the need to deliver returns. Multiple trajectories or pathways, which may lead to varying temperature outcomes, are likely to be important. These issues are reflected in the ongoing UK Government consultation on transition planning.<sup>31</sup>

Navigating this is challenging for capital providers and entities. The Guidelines on which we are consulting are anchored to the Paris Agreement by requiring use of 'Credible Pathways' (under the Credible Ambition Principle) for all interim targets and metrics that the entity sets and for its overall ambition. Credible Pathways are defined by reference to the goal of '*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*'. The principle of CBDR-RC is also acknowledged. Regional, national and sector pathways, and system, sector or technology roadmaps, taxonomies or science-based targets are proposed for use in anchoring an entity's Credible Pathways provided they are compatible with the Paris Agreement goal and published by a recognised third party. If an entity's approach and interim targets are not aligned to a 1.5°C scenario but otherwise fall within the definition of a Credible Pathway, for example

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<sup>30</sup> ICJ (2025), [Advisory Opinion of the International Court of Justice on the Obligations of States in respect of Climate Change](#).

<sup>31</sup> Department for Energy Security & Net Zero (2025), [Transition plan requirements consultation: Consultation seeking views on implementation routes for transition plan requirements](#)

because it operates in EMDE jurisdictions that have longer pathways, it will be important to understand why, what temperature outcome it is aligned with within the definition. This is made clear in the Credible Ambition Principle. The consultation includes an opportunity to provide input on the definition.

The Guidelines also address carbon lock-in (see the 'Credible Ambition' Principle and the 'Implementation Factor' for the detail of how it is applied). Entities are expected to avoid or minimise investment in new (or extensions to existing) high-emitting assets or activities whose operational life will continue beyond the time set pursuant to the relevant Credible Pathway. Entities that fail to do so may fall outside a transition classification unless there are mitigants - such as transition readiness or sunset provisions and reasonable, context-specific constraints to decarbonisation shaped by the regulatory and energy environment of the country in which they are located, independent of the entity's ambition.

The Guidelines do not include a 2050 public net-zero target as a universal expectation. The Guidelines' focus on delivery is centred on the short-term and, at a more general level, on the medium term, as this is when the investment horizons are clearer and material dependencies can be determined. The Credible Ambition Principle sets a requirement to reduce emissions in a structured way consistent with a Credible Pathway, setting interim targets and metrics and actions to achieve them. The entity is expected to iterate that approach and update targets, metrics and actions as it progresses, consistent with the Credible Pathway. Nonetheless, having a public long-term ambition is desirable and should be considered by the users of the guidelines.

The use of sector pathways and roadmaps connects with the Council's ongoing work on sector roadmaps led by Chris Skidmore OBE. This is assessing existing transition roadmaps in the UK and developing guidance on what transition investment planning must deliver to attract finance. Working closely with the UK Net Zero Council and stakeholders across government, industry and finance, the Council will publish guidance later in the year to support the development of Sector Transition Roadmaps.

As part of this consultation, we are seeking views on examples of good practice for assessing the credibility of pathways for high-emitting sectors in emerging markets. These examples could help support nationally determined approaches relevant to the credible pathway definition and guide how these Guidelines are applied in those markets.

## 4. Principles and Factors

### 4.1 Introducing Principles and Factors

The Guidelines consist of 'Principles' and 'Factors' for assessing financing of aligned/aligning entities (Category 4 of the TFCS).

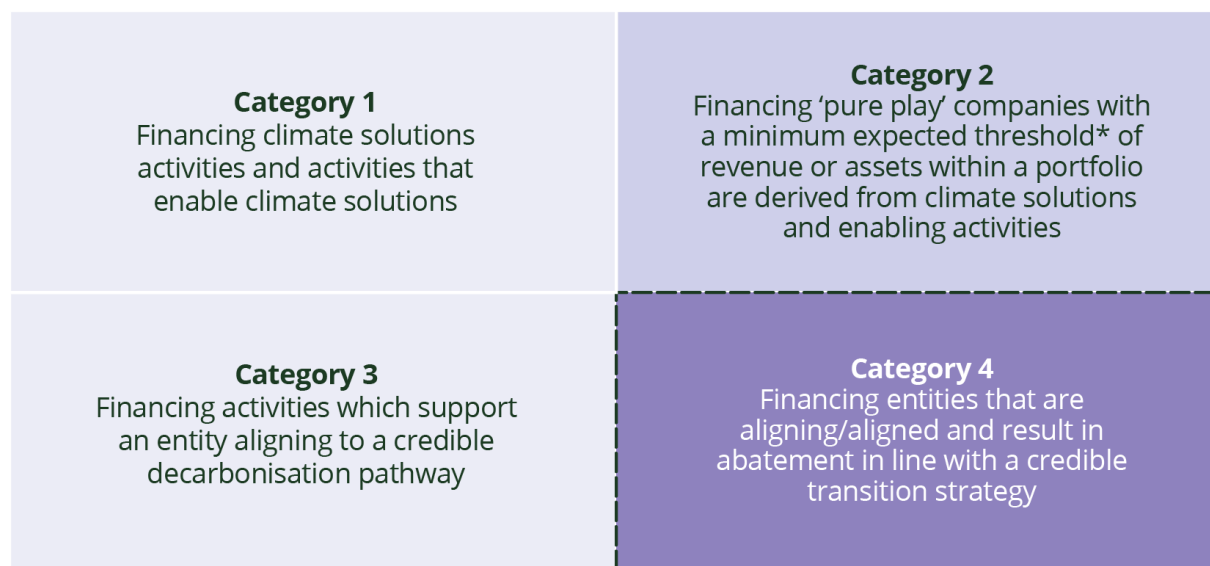


Figure 7, Transition Finance Classification System – Categories 1-4

The four Principles each address a dimension of credibility in relation to an entity's transition planning. They build from the Principles of the TPT framework and are used to assess whether an entity meets the minimum expectations for credible transition finance. The six Universal Factors for entity-level assessment directly support the evidencing of the four Principles. Contextual Factors should also be considered where they are material or required depending on the nature of the entity and the requirements of its home jurisdiction.

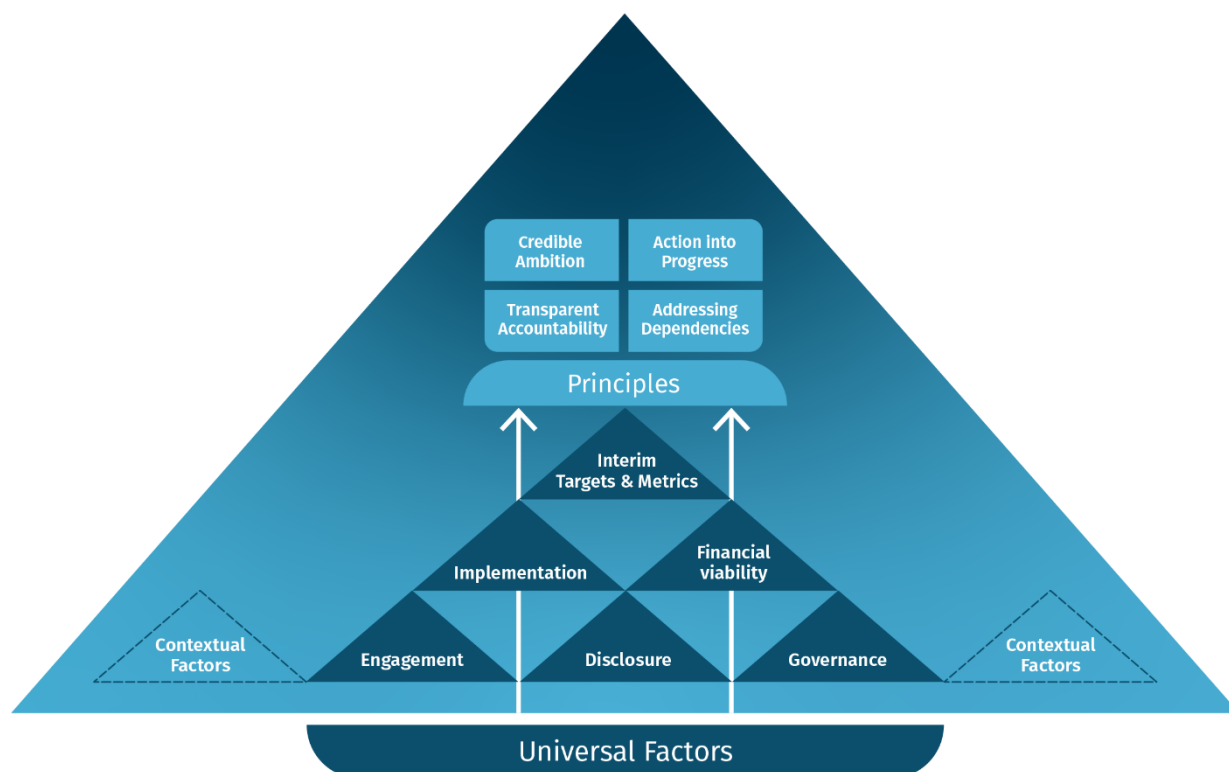


Figure 8, The Principles and Factors

The Universal Factors are evidence points for assessing whether the Principles are satisfied. In other words, they are indicators of performance against the Principles and must be met by the entity receiving the finance. The Universal Factors therefore act as constant minimum criteria to be used in all cases. Contextual Factors may be relevant depending on the materiality of the issue to the entity or the policy environment in which it operates. For more information on what these could be and how they might be used, see the 'Contextual Factors' section.

In summary, each Principle represents a dimension of credibility that must be satisfied. These Principles are not optional – they are the pillars of credibility. Factors are evidence points for assessing whether the Principles are being met.

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

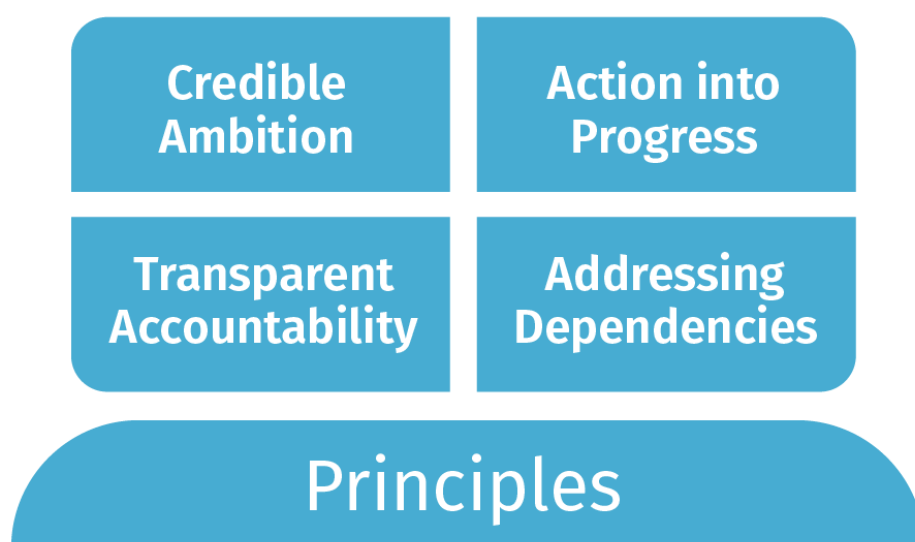
### Application of entity-level Guidelines for activity-level financing

For activity-level financing, the same Guidelines can help confirm that the activity is being carried out by an entity with a credible overall transition strategy. This reduces the risk of other aspects of the entity's business undermining the investment's credibility. In this context, users may take a proportionate approach, applying more flexibility at the activity or project level than at the entity-level, since the financing is more narrowly focused.

To support understanding of the terms used within the Principles and Factors, please see the Glossary of terms at the back of this document.

## 4.2 Principles

The diagram below shows the four Principles.



*Figure 9, The Principles*

### 1. Credible Ambition.

**Capital providers must be satisfied that an entity has an ambition to substantially reduce emissions in a structured way, consistent with a Credible Pathway or Pathways. This includes having clear interim targets, metrics and implementation actions consistent with this Credible Pathway; and an intention to avoid or minimise carbon lock-in.**

This Principle builds on the TPT's Principle of 'Ambition'. It sets a normative expectation that the entity should demonstrate ambition to substantially reduce emissions, and achievable

interim targets and metrics that are each consistent with a Credible Pathway (please see definition below).

**Credible Pathway or Pathways** means any pathway(s), scenario(s) or other models or methodologies that are used to plan an entity's transition provided that they are published by a recognised third party and are compatible with the Paris Agreement goal of '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' and the principle of common but differentiated responsibilities of states. While qualifying regional, national or sector pathways; system, sector or technology roadmaps; taxonomies or science-based targets may be used, national sector pathways or technology roadmaps or taxonomies or science-based targets compatible with a 1.5 degree increase above pre-industrial levels are preferred.

If an entity's Credible Pathway is not aligned with a 1.5°C scenario, it should explain why, and what temperature outcome its pathway aligns to within the Credible Pathway definition.

Before capital is provided - and at regular intervals thereafter - an entity should be able to demonstrate that its planned actions and interim emission reduction targets are realistically achievable. Where external influences, such as policy incentives, affect the feasibility of an entity's transition planning, capital providers may want to understand how these impact the credibility of ambition.

If emissions reductions are not immediately demonstrable in the short- to medium-term, incorporating financial or other operational targets and metrics, as credible proxies for future emissions reductions, can enhance the overall credibility of ambition.

Though having a public long-term target is desirable it is not required. However, the entity should have a long-term ambition consistent with a Credible Pathway that goes beyond the short- or medium-term to show strategic direction.

Avoiding carbon lock-in is important for achieving the goals of the Paris Agreement. Entities should avoid or minimise investment in new (or extensions to existing) high emitting assets or activities whose operational life will continue beyond the time set pursuant to the relevant Credible Pathway. More detail on how carbon lock-in should be addressed is set out in the Implementation Factor.

While reducing emissions is central to setting a Credible Ambition, ambition is more robust when it reflects a strategic and rounded approach. This may include actions that support long-term value, manage material physical and transition risks, and respond to broader transition objectives such as adaptation, resilience, or a just transition. These elements can reinforce the integrity of ambition and may be relevant Contextual Factors. For more detail on how 'Credible Ambition' is assessed across each Universal Factor, see section 4.3.



## 2. Action into Progress.

**Capital providers must be satisfied that the entity 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. During the financing period the entity should use all reasonable efforts to do so. Avoidance or mitigation of material environmental and social risks or adverse impacts will strengthen the credibility of delivery.**

This Principle builds on the TPT's Principle of Action and focuses on the need for planned implementation actions in support of short- and medium-term targets. Emission reduction targets are expected for Scope 1 and Scope 2 GHG emissions and are preferred for Scope 3 emissions. If an entity does not yet have a Scope 3 emissions reduction target, it should have alternative targets for performance of actions to reduce Scope 3 emissions.

The capital provider will need to periodically assess the sufficiency of the entity's approach, including adequacy of financial budgeting and other resourcing and expected financial performance. This assessment should connect with the entity's identification and plan to address dependencies, and the implementation risks associated with them on an ongoing basis.

Having granular information on how planned actions support delivery of interim targets and metrics and assessment of when key milestones are going to be met over the term of the financing supports credibility. Expert third party assessment of the transition plan is likely to be useful and may offer a benchmark against sector and jurisdictional good practice.

Carbon reductions are often achieved on a non-linear (lumpy) basis and may be impacted by external dependencies. Unexpected challenges may sometimes justify a slower trajectory for a limited period. Any such case must be tested and may result in additional conditions of investment, for example, more regular monitoring and reporting.

Where material issues arise in implementation, the entity will need to be transparent as to the causes of the lack of progress and how it proposes to correct matters within a reasonable period. If implementation actions or interim targets and metrics are persistently missed, this will negatively impact the outcome of the capital provider's assessment of credibility.

For more detail on how 'Action into Progress' is assessed across each Universal Factor, see section 4.3 below, in particular the Implementation Factor and Financial Viability Factor.

## 3. Transparent Accountability.

**Capital providers must be satisfied that the entity's implementation actions, and interim targets and metrics are integrated into its business planning, organisational processes and governance. Whether through public disclosure or other means, material information on ambition, targets and progress must be transparent.**

This Principle is grounded in the TPT's 'Accountability' Principle. Accountability is achieved through transparency on ambition, action and challenges. This means being clear about implementation actions and interim targets and metrics in an entity's business and financial systems and processes, including roles and responsibilities, and, where appropriate, links to budgeting, and remuneration structures as part of broader governance.

Transparency on timelines is important. Where decarbonisation involves long lead times or significant upfront investment, clear disclosure on anticipated timing of impacts helps capital providers understand how implementation is expected to unfold. This may include instances where emission reduction outcomes take several years to materialise.

Periodic provision of information by the entity to the capital provider will support the ongoing assessment of credibility. This may be through financial and sustainability reports or through direct reports provided to the capital provider. The capital provider may also draw on information from third-party data providers and ratings agencies.. Please see paragraph on 'The role of third-party data providers/assessors' in section 5.1.

Any form of evidence should be clear, balanced, understandable, data driven and sufficiently detailed. Capital providers should seek to obtain and to interrogate this information, both at inception and throughout the capital arrangement. Capital providers should balance the demand for clear, detailed reporting with what is feasible for entities in jurisdictions with limited market data, recognising that some estimation methodologies and proxy data may have to be used in such cases.

The entity has a responsibility to be transparent about material barriers to their action or ambition that they have experienced or foresee. This means clear communication of the status of climate-related dependencies that are likely to materially impact their plan. For more information on how to consider dependencies, please see the Addressing Dependencies Principle below.

For more information on how 'Transparent Accountability' is considered across each Universal Factor, see section 4.3.

#### 4. Addressing Dependencies.

**Capital providers must be satisfied that the entity has analysed and taken account of any material dependencies in determining its implementation actions, and interim targets and metrics, and manages those in relation to which it has leverage, prioritising the most material of these.**

A dependency includes any uncertainties or sensitivities that could directly or indirectly affect the entity's interim targets and metrics positively or negatively. Dependencies differ greatly across jurisdictions and can be linked to external macro-economic conditions (such as dependencies on government policy), an entity's internal operations (a dependency on collecting

accurate and reliable data) physical (availability of infrastructure, resources) or major environmental or social risks<sup>32</sup>.

A degree of judgement is required to determine whether the dependency genuinely limits the level of ambition and interim targets and metrics that can be set and/or delays progress against the target. Understanding an entity's dependencies and, most importantly, its approach to addressing them enables users to better assess the robustness of the entity's transition planning. In circumstances where the dependency is material, the entity should be transparent about the mitigating actions it is taking to proactively address the dependency. For example, this might relate to how it engages to influence external stakeholders that have more direct control over the dependency.

If a material dependency is unlikely to resolve within a reasonable period in a manner consistent with the entity's ambition, then this could result in the entity not meeting the requirements for credible transition finance (please see section 5.4 on 'Consequences of failure to perform').

Identifying dependencies through both a sector specific and a national lens is an important part of credibility assessment. Pathways to net zero vary significantly by sector and geography, depending on the underlying technologies, regulatory pressures, and decarbonisation levers available. Capital providers should have capacity and capability to understand the sectoral and situational context of an entity's dependencies.

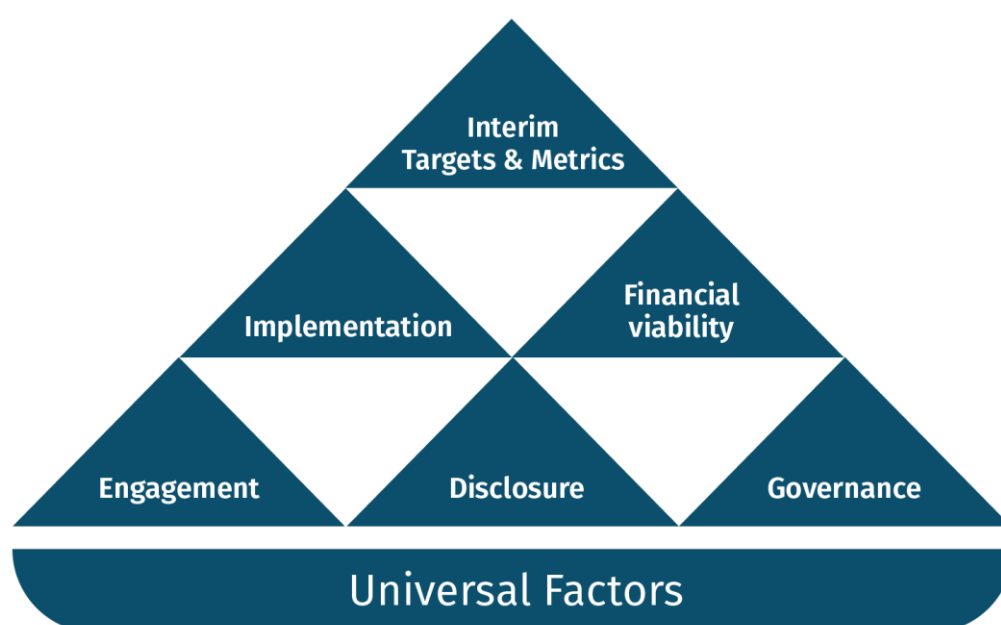
More information on how dependencies, including sector specific dependencies, should be identified is included within each Universal Factor in section 4.3.

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<sup>32</sup> Types of dependencies can include policy, regulatory frameworks, public acceptance, market conditions, consumer and client behaviour, environmental and social links, infrastructure availability and logistics, resource availability and technological limitations (Assessing Transition Plan Collective (ATP-Col)).

## 4.3 Universal Factors

Universal Factors set a consistent, minimum expectation for the classification of transition finance. These Factors emphasise the practical actions, and clear evidence points required to satisfy the Principles. The Universal Factors are for entity-level assessment and should be met by any entity regardless of its size, geography or other context, to be considered transition finance.



*Figure 10, The Universal Factors*

Universal Factors are intended to support the minimum expectations of an entity to be ruled in or out of a credible transition finance classification. They should be considered alongside any Contextual Factors that are materially relevant for the entity.

They do not prescribe a scoring methodology. The development of a fully prescriptive framework is a matter for the individual stakeholder or capital provider. Precise use of these Universal Factors will largely depend on the type of fund and/or financing they are being applied to. For example, a firm with a smaller directly held transition fund may want to use the Universal Factors as a minimum threshold. A firm with a large passive fund may want to use the Universal Factors to measure what percentage of the total portfolio can technically be categorised as transition investments. Other institutions may want to use them to inform their own transition related frameworks, as an external benchmark in engaging other parts of the market or as input to credit or investment decisions. In each case, the user should be transparent about how the Factors are used.

The Universal Factors will not necessarily be the only Factors relevant for assessment of an entity. Contextual Factors may also be relevant, depending on the size, geography, sector and other aspects of the entity's business. See section 4.4 for more information on what they are and how to use them.

The Universal Factor tables indicate how the criteria listed in the Universal Factors demonstrate alignment with the four Principles. Not every Factor will be equally relevant for evidencing each Principle. **Through satisfying the evidence points in the Factor table as a whole, the Principles are addressed and the baseline expectation for credible transition finance met.**

As far as possible, the entity is expected to take primary responsibility for making available the evidence required under each of the Factors outlined in the tables below. However, in some cases, due to practical, legal or information constraints, the entity may not be able to provide the necessary level of detail directly. In such instances, the capital provider is responsible for undertaking its own assessment, which may include reliance on third-party data or analysis, to form a reasonable view on whether the Factor has been sufficiently evidenced.

For this reason, the Universal Factors use neutral language and do not assign fixed responsibility for evidencing each requirement, leaving it to the entity and capital provider to determine the most appropriate means of doing so in each context. For more information on how one might apply the Guidelines in an EMDE context where there could be increased information constraints, see section 5.2.

Where another guidance framework or methodology may be relevant to support understanding of assessment, these have been underlined and included at the end of each Factor.

Please note, a couple of sample illustrative case studies of entities demonstrating evidence of some of the Factors are provided in the Appendix.

## Interim Targets and Metrics Factor

This Factor supports the Principles by evidencing evaluation of the ambition (through scope and alignment), progress (through measurability), accountability (through transparency of detail), and dependencies (through an understanding of the material assumption that influence target achievability.)

Credible Ambition	Action in Progress	Transparent Accountability	Addressing Dependencies
<p>* There should be quantitatively defined short- or medium-term decarbonisation targets, covering <u>material emission sources</u>* this includes emissions across Scopes 1 and 2, and where possible Scope 3.</p> <p>* There should be a long-term ambition for overall emissions reductions, though a quantified long-term target is not required.</p> <p>* The <u>short- and medium-term</u> targets should be consistent with a <u>Credible Pathway</u> [Paris-aligned efforts] and realistically achievable. There should be clarity on which pathway the entity is using and what temperature outcome it aligns to.</p> <p>* If the entity's short- or medium-term decarbonisation target does not cover all of its material emissions sources, these must have a clear and demonstrable link to an operational target that serves as a credible proxy for future emissions reductions. The link should be explained and justified why the target has an indirect but material impact on emissions reduction.</p> <p>Examples of operational targets may include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• supply chain alignment or engagement target</li> <li>• EV business usage target</li> <li>• a <u>green revenue</u> target</li> <li>• a renewable energy target</li> <li>• capital or operational expenditure directed to transition purposes</li> </ul> <p><i>Please see the Appendix for an illustrative example of an entity adopting a credible operational target.</i></p> <p>Operational targets may also be included in addition to decarbonisation targets.</p> <p>* Metrics from both a sector-specific and sector neutral standpoint should be used to evaluate and monitor the progress made towards targets and ensure they are feasible.</p>	<p>* Progress against targets should be monitored on at least an annual basis.</p> <p>* Where possible, there should be evidence of progress made to date against interim targets and metrics</p> <p>* Where progress is not anticipated to be linear, other metrics (such as Capex spend) which show progress on actions should be provided. Contextual information that explains why progress is not linear should be clear.</p> <p>* There should be a clear intention to periodically review and update targets to address progress and other changes (e.g. in corporate or group structure, sector or policy changes) consistent with a Credible Pathway(s)</p>	<p>* Targets should be quantitative and understandable, with supporting data and rationale.</p> <p>* There should be transparency of target details, such as the baseline year and the methodology for the interim target.</p> <p>* Where an intensity target is used, progress in reducing absolute emissions should also be reported</p> <p>* The time frame for a short- or medium-term interim target in the context of the entity should be clearly defined and explained (though it is expected to be within the range of 2-10 years)</p> <p>* If the entity does not have a GHG decarbonisation target covering its material Scope 3 emission sources, the timeline for setting one should be transparent.</p> <p>* There should be transparency of the entity's material emissions calculations and year on year performance.</p>	<p>* The <u>material dependencies</u> and assumptions that impact the achievement of the targets are clearly stated, mindful of the scale and timing of the impact on the entity's targets if these assumptions do not hold (i.e., when the dependency is expected to be most critical)</p> <p>* Sectoral context and professional judgement should be used to assess how dependencies impact the credibility of achieving any interim targets and metrics and to review any actions to manage this. This should be reviewed periodically.</p> <p>See implementation Factor below on how these dependencies are addressed.</p>

<p>Examples of metrics include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• emissions intensity metrics</li> <li>• energy consumption</li> <li>• utilisation of fossil fuel plants</li> <li>• fossil fuel supply weighting in certain timeframes</li> <li>• proportion of alternative fuel vehicles production</li> </ul>			
<p><b>References to other frameworks:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Material emissions sources:</b> Frameworks such as the GHG Protocol<sup>33</sup>, CDP<sup>34</sup>, EFRAG<sup>35</sup>, and IFRS S1<sup>36</sup> provide guidance on identifying and disclosing material sources of greenhouse gas emissions across Scopes</li> <li>▪ <b>Short- and medium-term:</b> The SBTi<sup>37</sup> offer methodologies around setting science-based short- and medium-term emissions reduction targets that align with a 1.5°C pathway.</li> <li>▪ <b>Credible Pathway:</b> Tools and methodologies from the SBTi, the Paris Aligned Asset Owners Net Zero Investment Framework (NZIF)<sup>38</sup>, and global decarbonisation pathways from the IPCC<sup>39</sup>, IEA<sup>40</sup>, CRREM<sup>41</sup>, Transition Pathway Initiative<sup>42</sup>, and Climate Bonds Initiative<sup>43</sup> support entities in aligning their targets with scientifically robust transition trajectories</li> <li>▪ <b>Green revenue:</b> Where entities use green revenue as a metric, clarity is needed on the definition of 'green'. The EU Taxonomy<sup>44</sup>, for example, provides detailed technical screening criteria to determine whether revenues are derived from environmentally sustainable activities</li> <li>▪ <b>Material dependencies:</b> The ISSB<sup>45</sup> (via IFRS S1 and S2) and ESRS<sup>46</sup> frameworks provide guidance on identifying and disclosing sustainability-related risks and opportunities, including climate-related dependencies, that could reasonably be expected to affect an entity's prospects.</li> </ul>			

*Table 1, Interim Targets and Metrics*

<sup>33</sup> GHG Protocol (2015), [Corporate Accounting and Reporting Standard](#)

<sup>34</sup> Carbon Disclosure Project (CDP) (annual updates), [Disclosure Framework and Reporting Guidance](#)

<sup>35</sup> European Financial Reporting Advisory Group (EFRAG) (2024), [Sustainability Reporting Standards Framework](#)

<sup>36</sup> International Financial Reporting Standards Foundation (IFRS) (2023), [IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#)

<sup>37</sup> Science Based Targets initiative (SBTi) (latest 2024), [Science-based Target Setting Manual](#)

<sup>38</sup> Paris Aligned Asset Owners Net Zero Investment Framework (NZIF) (2022), [Net Zero Investment Framework](#)

<sup>39</sup> Intergovernmental Panel on Climate Change (IPCC) (latest assessment 2024), [Assessment Reports and Pathways](#)

<sup>40</sup> International Energy Agency (IEA) (2023), [Net Zero Roadmap: A Global Pathway to Keep the 1.5°C Goal in Reach](#)

<sup>41</sup> Carbon Risk Real Estate Monitor (CRREM) (2024), [Global Decarbonisation Pathways](#)

<sup>42</sup> Transition Pathway Initiative (TPI) (ongoing), [Sector-specific Climate Transition Tools and Data](#)

<sup>43</sup> Climate Bonds Initiative (CBI) (2024), [Standard, Sector Criteria & Certification Framework](#)

<sup>44</sup> European Commission (2024), [EU Taxonomy for Sustainable Activities](#)

<sup>45</sup> International Sustainability Standards Board (ISSB) / IFRS Foundation (2023), [IFRS Sustainability Disclosure Standards \(IFRS S1 and S2\)](#)

<sup>46</sup> European Financial Reporting Advisory Group (EFRAG) (2024), [European Sustainability Reporting Standards \(ESRS\) Workstreams](#)

## Implementation Factor

This Factor supports the Principles by evidencing ambition (through alignment of actions with stated targets), progress (through tangible and time-bound delivery steps), accountability (through clarity on feasibility, ownership and follow-through), and dependencies (through risks that arise in delivery, such as carbon lock-in).

Credible Ambition	Action in Progress	Transparent Accountability	Addressing Dependencies
<p>* The entity's time bound implementation actions directly support its interim targets and metrics, are realistic and are in line with its overall ambition.</p>	<p>* There are prioritised actions the entity is immediately taking or planning to take that are in line with the interim target.</p> <p>* These actions should be related to (but are not limited to) the entity's <u>operations, its products and services or its policies and conditions</u>.*</p> <p>* There is an expected impact and contribution of each action or connected actions on the entity's progression towards the target and when this progress is planned to occur.</p> <p>* Actions taken should not cause significant environmental or social harm.</p> <p>* There should be a clear intention to periodically review and update the entity's implementation actions to address progress and other changes (e.g. in corporate or group structure, sector or policy changes) consistent with the Credible Pathway(s)</p> <p>* Where progress is not made as originally expected a clear explanation of why this is the case, and the corrective measures are proposed should be provided (<i>please see section 5.4 'Consequences of Failure to Perform' for more detail</i>)</p>	<p>* Planned actions should be shown to be feasible and consistent with the entity's financial performance expectations (this may be through assessment and/or evidence of their technical and economic or financial viability.)</p> <p>* There are at least annual updates on the implementation and effectiveness of the actions and whether any changes to planned actions are required.</p>	<p>* For the dependencies that could materially impact the achievement of the entity's interim target, there are clear actions planned or being taken to mitigate risks arising from these dependencies. These actions are integrated within the entity's overall strategy.</p> <p>* These actions must sufficiently address the dependency such that the achievement of the target is not likely to be materially impacted by the dependency.</p>
<p><b>Carbon lock-in</b> Where the entity is investing in new carbon-intensive assets/projects or the life-extension of existing carbon-intensive assets/projects (i.e. through retrofit) the entity should identify the materiality of these to the entity's interim targets and metrics and ambition.</p>	<p><b>Carbon lock-in</b> * If the carbon lock-in assessment determines a carbon lock-in risk, there should be an action or commitment from the entity to either phase out or transition the asset to a technologically feasible and economically viable low-carbon alternative within its lifetime (e.g. commercial and/or technical</p>	<p><b>Carbon lock-in</b> * The results of any carbon lock-in assessment, including identified risks and planned mitigation measures, should be clearly documented and, where appropriate, disclosed.</p> <p>* If transitioning to an asset with a lower carbon footprint, the lower carbon replacement should -</p>	



<p>* There should be a full <u>carbon lock-in assessment</u>* for any such assets/projects that are material and are not already aligned with a conservative benchmark derived from a Low Carbon Pathway (LCP).</p> <p>* This assessment should include consideration of the lifetime of the asset/project and whether its planned operating life extends outside of the Credible Pathway or is incompatible with the sector pathway's emission allowances.</p> <p>* Any assessment should have regard to climate science, transition pathways, as well as potentially relevant geographic or sectoral context.</p>	<p>asset transition readiness, application of sunset clauses, transition targets consistent with phase out, or time bound phase out plans).</p>	<p>a) make a material impact in reducing the entity's overall GHG emissions b) have an operating life consistent with the entity's decarbonisation targets. c) be compatible with a Credible Pathway and the entity's ambition.</p>	
<p><b>*References to other frameworks:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Internal operations, products and services, policies and conditions:</b> Please see the TPT framework<sup>47</sup> for further examples.</li> <li>▪ <b>Carbon lock-in assessment</b> An example methodology for this purpose is the EBRD methodology<sup>48</sup> that determines the Paris Agreement alignment of EBRD investments.</li> </ul>			

Table 2, Implementation

<sup>47</sup> Transition Plan Taskforce (TPT) (2023), *Transition Plan Taskforce Disclosure Framework*

<sup>48</sup> European Bank for Reconstruction and Development (EBRD) (2023), *Paris Agreement Alignment Methodology for EBRD Investments*

Financial Viability Factor			
It supports the Principles by demonstrating ambition (through alignment between financial planning and transition goals), progress (through visible allocation of resources to delivery), accountability (through transparency of financial assumptions and costings), and dependencies (through feasibility risks related to funding availability, affordability, or capital mobilisation constraints).			
Credible Ambition	Action in Progress	Transparent Accountability	Addressing Dependencies
<ul style="list-style-type: none"> <li>* The entity should have financial ambitions or targets (e.g. for capital expenditure, operating expenditure, R&amp;D, or balance sheet allocation) that take account of and align with its overall transition ambition.</li> <li>* The entity's overall funding strategy and financial policy should support the delivery of its interim targets and metrics and long-term ambition.</li> <li>* Any impact of the implementation actions, interim targets and metrics and ambition of the entity on profitability are being appropriately considered and managed.</li> </ul>	<ul style="list-style-type: none"> <li>* For actions to result in progress they should be financially deliverable.</li> <li>* The entity has costed its <u>implementation actions</u><sup>*</sup> and budgeted for these in planned capital and operating expenditure and expected cash flows.</li> <li>* Over the period of the interim target there should be observable progress in alignment of either revenues, expenditures or assets with it's the entity's ambition. Linear progress is not required.</li> <li>* There is gradual capital allocation away from high-emission activities.</li> <li>* Other capital projects should be tested for alignment with and impact on the entity's interim targets and metrics and overall ambition</li> </ul>	<ul style="list-style-type: none"> <li>* Where precise figures are not available; it should be clear which decarbonisation actions require material investment and there should be qualitative assessment of how these will be financed. For example, this could be expressed as a percentage of planned capital expenditure or new investment directed towards decarbonisation.</li> <li>* The entity's financial reporting should be consistent with its transition planning, including disclosure of any material expected effects on its financial position and performance in the short- and medium-term.</li> <li>* Material financial impacts should be reflected in general purpose financial reports, transition plans or equivalent disclosures.</li> </ul>	<ul style="list-style-type: none"> <li>* Entities should identify the key sources of material financial dependencies, such as reliance on policy incentives, infrastructure availability, regulatory gates or technology costs, and explain how these are being managed or mitigated. This helps users assess the robustness and realism of the financial plan.</li> <li>* The entity should demonstrate awareness and management of stranded asset risk if material to the business.</li> </ul>
<p><b>*References to other frameworks:</b></p> <ul style="list-style-type: none"> <li>▪ <b>Costed implementation actions:</b> Information on the financial viability of decarbonisation levers can be found at CPP Investments<sup>49</sup> and also Accounting for Sustainability<sup>50</sup> (A4S)</li> </ul>			

Table 3, Financial viability

<sup>49</sup> CPP Investments (2022), *The Decarbonisation Imperative*
<sup>50</sup> Accounting for Sustainability (A4S) (latest), *Aligning Financial Planning and Transition Planning Guide*

Engagement Factor			
It supports the Principles by advancing progress (through targeted efforts to influence others essential to delivery), accountability (through clear ownership of engagement actions and avoidance of contradictory messaging), and dependencies (by identifying and addressing external actors that materially affect transition outcomes).			
Credible Ambition	Action in Progress	Transparent Accountability	Addressing Dependencies
<ul style="list-style-type: none"> <li>* There should be a clear engagement plan (this may be with value chain partners, industry peers, government, public sector and civil society) to support implementation actions, particularly where these influence material emission sources</li> <li>* The entity should avoid any direct or indirect engagement that materially undermines the ambitions and interim targets and metrics of the entity</li> </ul>	<ul style="list-style-type: none"> <li>* There should be an assessment of which stakeholders either within the entity's value chain, within industry or within government, public sector and civil society play a critical role in the achievement of their ambition.</li> <li>* There should be clarity on the expected contributions of the engagement to the entity's strategic ambition and updates on the progress of engagement</li> </ul>	<ul style="list-style-type: none"> <li>* There should be clear responsibility for engagement actions</li> </ul>	<ul style="list-style-type: none"> <li>* There should be identification of dependencies that are both material to the entity's transition and could be influenced through engagement.</li> <li>* There should be prioritisation of these engagement efforts to address these dependencies and assessment of their effectiveness over time.</li> <li>* This may include actors who influence the enabling environment, such as infrastructure providers, regulators, or through participation in industry initiatives, trade associations (with aligned messaging), or direct dialogue with governments and civil society.</li> </ul>

Table 4, Engagement

Governance Factor			
It supports the Principles by reinforcing ambition (through senior-level ownership and strategic alignment), progress (through oversight of delivery structures and decision-making pathways), and accountability (through clarity of roles, responsibilities, and – where relevant – incentive mechanisms).			
Credible Ambition	Action in Progress	Transparent Accountability	Addressing Dependencies
<ul style="list-style-type: none"> <li>* The transition ambition is clearly backed by senior decision-makers (e.g. executive team or board),</li> <li>* Leadership has played a central role in shaping the ambition, reflecting a considered view of long-term risks, opportunities, and value.</li> </ul>	<ul style="list-style-type: none"> <li>* Management structures, processes and incentivisation enable delivery of implementation actions and interim targets and metrics.</li> <li>* The entity has or has plans to acquire the right skillsets and management capability to deliver on its actions and targets.</li> <li>* There is periodic monitoring and review of actions and performance against metrics/ targets by the entity's senior management and an escalation and remediation process for actions or targets that are at risk of under delivery or delay and of management and monitoring of dependencies.</li> </ul>	<ul style="list-style-type: none"> <li>* There is clear allocation of responsibility within management for the delivery of short- and medium-term targets and implementation actions.</li> <li>* Where the entity has a Board, the Board has approved the targets, and implementation actions and has overall oversight of the entity's performance.</li> <li>* Structural governance changes that affect the transition planning should be considered and articulated in any senior management or board review and reflected in related information for investors or for public disclosure.</li> <li>* The entity's governance framework may include financial incentives (e.g. remuneration or performance-based pay) for senior management that are linked to the achievement of transition-related targets or milestones.</li> </ul>	

Table 5, Governance

Disclosure Factor			
The requirements on what an entity should disclose (either publicly or privately) is in the Factor tables above. This Factor contains the additional considerations for how an entity should disclose.			
Credible Ambition	Action in Progress	Transparent Accountability	Addressing Dependencies
<ul style="list-style-type: none"> <li>* Where appropriate, disclosure and reporting to capital providers should be aligned to regulatory and market standards.</li> <li>* Where appropriate, the disclosure of the entity's plan should be consistent with the TPT Disclosure Framework or an equivalent transition plan disclosure framework. The entity should be aiming to gradually align the disclosure of its strategy and progress with such a framework.</li> </ul>	<ul style="list-style-type: none"> <li>* Information on progress should be at least qualitative commentary initially and quantitative commentary wherever possible.</li> </ul>	<ul style="list-style-type: none"> <li>* There should be agreement on the mechanisms through which the entity will report progress against its planned actions.</li> <li>* While the reporting cadence will vary depending on the use case and practical considerations, large entities should be expected to report at least annually either publicly or to the capital provider (or auditors/assessors whose opinion investors can rely on).</li> </ul>	

Table 6, Disclosure

## 4.4 Contextual Factors

An entity should also consider Contextual Factors, in addition to the Universal Factors, where these could materially affect an entity's ability to deliver a credible transition of its business. These will vary depending on sector, geography and market characteristics.

Like Universal Factors, Contextual Factors are matters that capital providers may wish to consider as part of their due diligence (i.e. criteria for assessment). The Factors outlined in this section are illustrative and non-exhaustive. They reflect areas that may require incorporation into an entity's transition planning, depending on the materiality of specific risks. Where relevant, references are made to other frameworks and methodologies which support the identification and appropriate management of these risks.

### Adaptation and resilience Factor

The relevance of physical climate risks will vary depending on the entity's geography, operations, and exposure to climate-sensitive assets or infrastructure. For those operating in high-risk regions or with long-lived physical assets, adaptation and resilience may be critical to the credibility and durability of the transition.

Where physical climate change impacts are likely to pose a significant risk to the entity's business, the entity should ensure that any transition implementation actions are designed to be resilient to direct and indirect physical climate risks. Capital providers may wish to consider whether climate risk is material and, if so, how it is being addressed.

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

Resources available include:

- the IIGCC's *Climate Resilience Investment Framework*<sup>51</sup>
- *PCRAM 2.0 methodology*<sup>52</sup>, which provide practical guidance on integrating physical climate risk into investment processes
- the UN PRI's *technical guides* on adaptation and private markets<sup>53</sup>
- the UNEP FI's *measurement framework*<sup>54</sup>, which offers adaptable metrics for assessing resilience impact

<sup>51</sup> IIGCC (2025), [Climate Resilience Investment Framework](#)

<sup>52</sup> IIGCC (2025), [The Physical Climate Risk Appraisal Methodology \(PCRAM\) 2.0](#)

<sup>53</sup> UNPRI (2025), [Climate Change – Technical guides](#)

<sup>54</sup> UNEP FI (2024), [Adaptation & Resilience Impact: A measurement framework for investors](#)

- the ITPN's *Building Climate-ready Transition Plans*<sup>55</sup>
- the NGFS' *Input paper on Integrating Adaptation and Resilience into Transition Plans*<sup>56</sup>; and
- the WBCSD's *Adaptation Planning for Business – Navigating uncertainty to build long-term resilience*<sup>57</sup>

### Publicly stated long-term targets Factor

Having a long-term, publicly stated climate target aligned with broader climate goals can be a strong signal of strategic intent, if coupled with detailed short- and medium-term strategy and targets. Not all entities have a publicly stated long-term target. This may be because of uncertainties as to technologies, a lack of national or regional sectoral pathways or policies or other national or state characteristics which make expression of such an ambition challenging.

Capital providers may wish to consider whether the Credible Pathway used by the entity and its transition ambition are sufficient to support the overall credibility of the entity's transition.

### Third-party assurance or verification Factor

The role and availability of third-party assurance still varies depending on the entity's size, location, complexity and sector, the financial asset class involved and regulatory and market expectations.

Third party assurance of emissions data is common for large, listed UK or European companies but may be less prevalent in other markets and for privately owned medium sized companies. Assessment of transition planning in addition to data assurance is generally expected in labelled finance (e.g. second party opinions (SPOs) for ICMA Principles-aligned sustainable bonds); and wider uses are growing. The expected overall trend is for assurance and assessments to become more prevalent over the short- and medium-term.

It is highly desirable for an entity's reported emissions data (and other sustainability linked data where possible) to be subject to third-party assurance or verification. Third party assessment of an entity's transition planning is also useful and may be an important input to any due diligence process where available. Whether the entity engages independent third parties to provide assurance over key metrics, methodologies, or disclosures, or whether it references external credibility assessments, including net zero ratings or scoring frameworks, both can support accountability and help validate the entity's approach. It may also provide insight into how the

<sup>55</sup> ITPN (2024), [Building Climate-ready Transition Plans: Including adaptation and resilience for comprehensive transition planning approaches](#).

<sup>56</sup> NGFS (2025), [NGFS Input paper on Integrating Adaptation and Resilience into Transition plans](#)

<sup>57</sup> WBCSD (2025), [Adaptation Planning for Business – Navigating uncertainty to build long-term resilience](#)

strategy compares to peers or aligns with market expectations, reinforcing credibility of ambition.

### **Environmental and social risks Factor**

Entities are expected to ensure that no other environmental or social objectives are severely harmed), in line with broader sustainability considerations. This includes objectives such as social impacts, just transition, nature and biodiversity.

While all entities are expected to avoid significant harm, the specific environmental and social risks associated with transition activities can vary widely depending on the sector, geography, and entity's transition planning. For entities undergoing large-scale operational change, these risks may be more material. Capital providers may wish to consider these issues in due diligence.

Entities should take steps to assess, avoid, mitigate and manage environmental and social risks and adverse impacts, consistent with good industry practice. Environmental and social risks should be monitored and managed on an ongoing basis by the entity, with clear processes for escalation and oversight. Where appropriate, communication of how risks are being addressed, including through public disclosures, can support accountability. Where dependencies intersect with environmental or social risks, entities should be clear as to how the entity is seeking to manage and mitigate these risks as part of the entity's broader transition planning.

For those with large workforces, large scale operations in economically dependent communities, or significant supply chain exposures, the transition may carry material risks for people and livelihoods. Entities should mitigate social impacts where possible to avoid lasting harm to stakeholders, particularly workers, suppliers, surrounding communities, and consumers. Where local employment, community infrastructure, or regional economic resilience are at risk, these can create dependencies that can challenge delivery of the transition plan. Cumulative impacts associated with wider transition within a region should also be considered as they may have an amplifying effect. Where the transition is likely to result in significant adverse social impacts, a stakeholder risk assessment and social strategy may be necessary to mitigate those impacts. Evidence of proactive engagement with affected groups, public collaborations with government, public sector bodies, or civil society, can support transparent accountability and reinforce the credibility of ambition.

The relevance of nature-related risks, impacts and opportunities will also vary depending on the entity's sector, location, and value chain. For those with land-intensive operations, or with nature-related dependencies directly or within their supply chain, it may be an important factor to manage within the entity's transition.

Integration of nature-related objectives into the transition planning, including actions to avoid or reduce adverse impacts or to restore, or regenerate nature, can help ensure the entity is managing its most material nature-related risks. This could include assessing whether the

entity's implementation actions satisfy "do no significant harm" criteria under applicable taxonomies or other third-party standards, as regards ecosystems, species, and other natural resources. Where material, it may be relevant to evaluate whether the entity has conducted a risk and opportunity assessment aligned with the TNFD LEAP approach, identifying both dependencies and impacts across its value chain. In some cases, and where available, application of science-based targets for nature, time-bound goals, and clear governance mechanisms may also demonstrate credible ambition and transparent accountability.

The following guidance, frameworks and tools can be referenced to further support entities in managing these risks and impacts:

*With regards to overall environmental and social risks and impacts:*

- Do No Significant Harm and Social Safeguard provisions in taxonomies (e.g. European Commission's Official Technical Guidance on DNSH<sup>58</sup>)
- *The Equator Principles*<sup>59</sup>, *IFC Performance Standards*<sup>60</sup>, *World Bank EHS Guidelines*<sup>61</sup>;
- *EBRD Performance Requirements*<sup>62</sup> and relevant legal and regulatory frameworks.

*With regards to just transition risk and impacts:*

- *Impact Investing Institute's Just Transition Criteria*<sup>63</sup>, which provides product-level guidance and metrics;
- the *PRI's guide for investor action*<sup>64</sup>, which outlines strategic and engagement approaches;
- Tools from the *Investor Group on Climate Change*<sup>65</sup>, *Amundi and Clifford Chance*<sup>66</sup>, the *World Bank*<sup>67</sup>, the *Grantham Institute*<sup>68</sup>, the *ITPN*<sup>69</sup>, and the *Global Reporting Institute*<sup>70</sup>, offering practical checklists, engagement templates, taxonomies and just transition metrics.

<sup>58</sup> European Commission (2025). [Technical guidance on applying the 'do no significant harm' principle under the Social Climate Fund Regulation](#)

<sup>59</sup> Equator Principles (2020), [The Equator Principles](#)

<sup>60</sup> International Finance Corporation (IFC) (2012), [Performance Standards on Environmental and Social Sustainability](#)

<sup>61</sup> International Finance Corporation (IFC) (2007), [World Bank Group Environmental, Health, and Safety \(EHS\) Guidelines](#)

<sup>62</sup> EBRD (2023), [Performance Requirement Guidance \(1&2\)](#)

<sup>63</sup> Impact Investing Institute (2023), [Just Transition Criteria](#)

<sup>64</sup> UNPRI (2018), [Climate change and the just transition – A guide for investor action](#)

<sup>65</sup> IGCC (2024), [Investor Expectations for Corporate Just Transition Planning](#)

<sup>66</sup> Amundi Asset Management and Clifford Chance LLP (2024), [Just Transition: A Framework for Investor Engagement](#)

<sup>67</sup> World Bank Treasury Sustainable Finance & ESG Advisory Services Program & World Bank Extractives Global Unit (2024), [Just Transition Taxonomy](#)

<sup>68</sup> Grantham Research Institute on Climate Change and the Environment, London School of Economics (2022), [Making Transition Plans Just: How to Embed the Just Transition into Financial Sector Net Zero Plans](#)

<sup>69</sup> ITPN (2024), [Just Transition Report](#)

<sup>70</sup> GRI (2025), [GRI 102: Climate Change](#)



*With regards to nature and biodiversity risk and impacts:*

- the *TNFD Recommendations* and *LEAP approach* for identifying and disclosing nature-related risks;
- the *Finance for Biodiversity Initiative's target-setting framework*; and
- guidance from *UNEP FI*, *MSCI*, *UN PRI*, and the *Green Finance Institute*, which offer sectoral insights, metrics, and engagement strategies.

## Offsetting Factor

Many entities rely on carbon credits to offset their residual emissions. Some entities also use carbon insetting to reduce emissions from within their value chains, although this is easier for some sectors (e.g. fast-moving consumer goods) than others.

Where carbon credits are used, the entity should be able to show that these are high-quality and qualify as such under a relevant international certification standard. Entities should consider how a balanced portfolio of reduction and removals can best meet their requirements. Any carbon removals, reductions or avoided emissions that generate credits should be additional to activities that would have happened in anyway (e.g. under applicable regulation). The activities or projects that generate the credits should have a low risk of reversal and avoid significant environmental or social harm. These activities, projects and related credits should have been the subject of monitoring, verification and appropriate accounting treatment. Over time transition credits (often issued in respect of emissions avoided upon the early closure of coal fired power stations) may also offer an additional form of offset as the market becomes more established.

Entities should have robust governance mechanisms in relation to offsetting and be transparent as to its contribution to meeting any longer-term ambition, demonstrating transparent accountability. A range of frameworks and tools are available to support an entity's approach to offsetting, and mitigate risk, including:

- the ICVCM's *Core Carbon Principles and Assessment Framework*<sup>71</sup>
- the VCMI's *Claims Code of Practice*<sup>72</sup>
- the University of Oxford's *Principles for Net Zero Aligned Carbon Offsetting*<sup>73</sup>
- carbon credit ratings agencies
- carbon credit insurance policies

<sup>71</sup> Integrity Council for the Voluntary Carbon Market (ICVCM) (2024), [Core Carbon Principles and Assessment Framework](#)

<sup>72</sup> Voluntary Carbon Market Integrity Initiative (VCMI) (2024), [Claims Code of Practice](#)

<sup>73</sup> University of Oxford (2024), [Oxford Principles for Net Zero Aligned Carbon Offsetting \(revised 2024\)](#)

## 5. Application of the Guidelines

### 5.1 Obtaining information required for assessment

#### **Acknowledging data limitations**

The Guidelines recognise that limitations in data availability, quality and consistency remain a significant challenge for transition assessment. These challenges are particularly acute for smaller entities, in certain geographies and for specific transaction types or capital structures. The information available is likely to be a mix of quantitative and qualitative data. Transition-related disclosures remain uneven and in development across markets.

Considering this, the Guidelines encourage a proportionate, evidence-based approach to assessment, using the best available information at the time of both initial and periodic evaluation. In contexts such as emerging markets and developing economies (EMDEs), or in the case of smaller entities, capital providers may need to take a more flexible approach while still upholding the Principles and applying the Universal Factors.

The Council plans to release implementation guidance in its second consultation which will include some suggestions on how to address data-related issues in specific asset class and capital use contexts.

#### **Sources of information**

The primary source of information for assessing an entity against the Guidelines will often be its own public disclosures. This may include, but is not limited to, climate-related disclosures (such as transition plans and sustainability reports) and general-purpose financial reporting. Where appropriate, capital providers should seek to engage directly with the entity to supplement public information. In many cases, relevant information will be shared privately through due diligence processes or bespoke reporting mechanisms.

Where entity disclosures are limited or incomplete, capital providers may refer to sector benchmarks, proxy data, or data from comparable peers. In such cases, the use of alternative data should be transparent, well-reasoned, and proportionate to the investment or financing decision being made. When assessing small and medium-sized enterprises (SMEs) and when looking at data from EMDE entities, capital providers should be mindful of the potential administrative and resource burden of data requests, and seek to manage these appropriately, for example by focusing on the most material information needs, accepting proportionate disclosures, or phasing information provision over time.

## Use of third-party data providers

Capital providers may also choose to supplement entity-sourced information with data from third-party providers, such as ESG ratings agencies, second party opinion providers, carbon emissions databases, climate scenario tools, and sectoral modelling resources. However, capital providers are expected to interrogate, contextualise and critically assess the reliability and relevance of any third-party data, particularly where it has a material bearing on credibility judgments or transition classification decisions.

## Role of third-party assurance providers

Where entity disclosures have been independently assured, this will enhance the reliability of information used for assessment. While assurance is not currently a requirement under the Universal Factors, capital providers are encouraged to consider whether and where assurance can help mitigate risks of misclassification or greenwashing.

Assurance may be particularly relevant for information related to implementation progress, interim targets, or financial viability. Ratings or assessments that are subject to a defined assurance methodology may also play a role in increasing confidence in the quality of the data used.

In the case of large and listed entities, there is an increasing market expectation that third-party validation - including independent assessment of transition plans - will be part of the overall evidentiary base. Tools such as the SBTi Financial Institutions Net-Zero Standard (including its provisional implementation list) may serve as a reference point. This expectation may be less applicable to mid-sized or private entities, where data limitations are more pronounced.

## 5.2 Guidance for application to EMDEs

In preparing this consultation paper, the following areas arose as ones which capital providers might welcome indications of where proportional approaches were appropriate in the context of emerging market investment. They are areas on which further inputs from institutions and entities operating markets with different characteristics to the UK would be particularly helpful.

- **EMDE transition pathways.** The Guidelines require a Credible Pathway compatible with the goal of the Paris Agreement to be demonstrated. National sector pathways, sector or technology roadmaps, taxonomies, science-based targets are contemplated as appropriate anchors under this definition, so an entity's ambition and targets can take account of national or regional context. Where an appropriate national sector pathway or taxonomy is not available, an entity may use a global pathway potentially applying a longer time period for alignment or adopt a pathway from another country and justify why it has chosen it. Reference to best available technologies for the sector and

comparison of the entity's level of ambition against sector peers in the country or region may be useful supporting information.

- **Targets and metrics.** The Guidelines contemplate emissions reduction targets (including intensity) and financial/operational targets and metrics, using sector- and region appropriate benchmarks and transition pathways where available. The scope for deploying financial or operational targets and metrics should enable additional proxies to be developed in cases where reliable emissions data is difficult to obtain.
- **Disclosures and data availability.** Recognising that sustainability disclosures and expectations related to transition planning are less well embedded in many EMDE jurisdictions' regulation and voluntary standards, it is expected that some credible transition entities may not meet all expected components described above. The onus may therefore be on the provider of finance to satisfy themselves, or seek direct information from the company, that the necessary conditions for credible implementation of transition targets, metrics and actions are met.
- **Governance:** Governance practices and control structures are differentiated across EMDEs therefore the finance provider may need to satisfy themselves that oversight and responsibility for the strategy and implementation are sufficient even where specific governance characteristics described above are not yet met.

### 5.3 Future implementation guidance

We are working to provide brief implementation guidance on the application of the Guidelines. We are likely to build this out with respect to different contexts (i.e. application to EMDEs) and to different asset classes. An example of how the Guidelines could be applied to public equities is provided in the Appendix, alongside other case studies that we will continue to develop.

We anticipate that other bodies may also develop their own approaches or complementary guidance to support implementation in specific contexts and will look to reference these where they provide useful alignment or practical tools. For instance, in private markets, the Sustainable Market's Initiative's *Private Markets Decarbonisation Roadmap*<sup>74</sup> is a valuable reference post for identifying transition finance opportunities across different asset classes within a private capital portfolio. By linking to such external sources, we ensure the implementation guidance remains grounded in evolving market practice and supports the effective mobilisation of transition finance across the investment spectrum.

We welcome feedback on which areas future interpretive guidance should prioritise, and we encourage the submission of practical case studies that illustrate the application of transition finance in different contexts and asset classes.

<sup>74</sup> Sustainable Markets Initiative (2024), [Private Markets Decarbonisation Roadmap](#)

## 5.4 Consequences of failure to perform

Common criticisms of transition finance are that it can expose investors or lenders to an entity's failure or decision not to perform and therefore, outcomes where there is no real-world decarbonisation impact. This is a particular issue for entity-level investment, noting that the actions available to the capital provider in the event of a failure to perform will depend on the asset class, the terms of any relevant instrument and the size of the capital provider's interest in the entity.

A balanced approach is necessary: for the classification to have value, failure to transition must have potential consequences and declassification must be a potential outcome. In some cases, the structure or scaffolding of the transaction may already contemplate this (for example, in the case of a sustainability linked loan or bond where a target is missed). These existing precedents show that context is important. A failure to satisfy a target because of a unilateral decision by management to change strategy is likely to be perceived differently as compared to a failure that is attributable to geopolitical forces outside the control of the entity.

The entity and the capital provider will have a common interest in avoiding fine triggers where timely remediation is possible. This is particularly true since sustained performance failures could potentially drive disinvestment by investors. In the case of failures arising because of unforeseeable external factors or dependencies whose outcome was unexpected, if the entity takes all reasonable steps to try to mitigate their effects, some latitude may be appropriate. This reinforces the importance, to the entity and the capital provider alike, of the entity's scoping and active management of material dependencies and their potential forward impact throughout the period of investment.

Capital providers should consider carefully how to address these issues as part of their development of transition frameworks or strategies and post financing engagement. They should put appropriate governance in place to support their approach to transition challenges. Any decision-making should be evidence-based, principled and aim for consistency in approach within each asset class and, where appropriate, between them. Periodic reviews should be undertaken to ensure the capital provider's process keeps pace with market developments.

## 6. Glossary

### Definitions

**Activity** means an activity or project that supports an entity in aligning to a Credible Ambition (which may include climate solutions activities and/or activities that enable climate solutions).

**Aligned and aligning** means the process of aligning either an activity or an entity's economic activities as a whole (as the context may require) to a Credible Ambition and achieving and maintaining that alignment, as contemplated in Category 3 of the Transition Finance Classification System as regards activities and Category 4 of the Transition Finance Classification System as regards entities.

**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.

**Carbon lock-in** in the context of assessing transition finance occurs when high-emission infrastructure, assets or projects are built or extended, locking in future emissions, despite the possibility of substitution with technologically feasible, economically viable low-carbon alternatives. Carbon lock-in is distinct from but connected to the concept of stranded assets (please see stranded assets definition).

**Carbon lock-in assessment** is an assessment of the potentially locked-in GHG emissions from a particular asset or project in the case of activity-level investment or finance or from an entity's new or extended or refurbished assets and projects in the case of entity-level investment or finance. Any assessment should have regard to climate science, transition pathways, the investee's plans to transition or retire such assets or products as well as potentially relevant geographic or sectoral context.

**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 those risks or adverse impacts arising from the entity's business activities, operating context or market characteristics that could materially affect an entity's ability to deliver a credible transition of its business that capital providers should consider in addition to Universal Factors in relation to any entity-level investment or finance.

**Credible Pathway or Pathways** means any pathway(s), scenario(s) or other models or methodologies that are used to plan an entity's transition provided that they are published by a recognised third party and are compatible with the Paris Agreement goal of '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' and the principle of Common But Differentiated Responsibilities and Respective Capabilities of states. While qualifying regional, national or sector pathways; system, sector or technology roadmaps; taxonomies or science-based targets may be used, national sector pathways or technology roadmaps or taxonomies or science-based targets compatible with a 1.5 degree increase above pre-industrial levels are preferred.

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

**Factors** means Universal Factors and Contextual Factors.

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

**Stranded Assets** are investments or physical assets that become financially non-viable before the end of their expected life because they are incompatible with a low-carbon economy or future regulatory environments. Consideration of stranded assets focuses on the financial consequences of failing to transition, rather than a forward-looking assessment of future locked in emissions (please see carbon lock-in assessment).

**Transition Finance Classification System** means the classification system for transition finance set out in Chapter 1 of the Transition Finance Market Review.

**Universal Factors** are evidence points for assessing whether the Principles of the Guidelines are satisfied. In other words, they are indicators of performance against the Principles and must be met by the entity receiving the finance. The capital provider should use these Universal Factors in all cases to determine whether an entity's transition planning is credible enough for finance to be classified as transition finance.



## 7. Appendices

### Appendix 1 - Illustrative case studies of alignment to the Factors

The following case studies provide illustrative examples of entities demonstrating strong evidence of alignment with the Factors outlined in these Guidelines. They are just an initial sample. The Council would welcome inputs of further case studies which consultees consider potentially useful to Guideline users, including examples of challenges in assessment, entities that did not meet the classification requirements for transition finance and examples of good practice for assessing appropriate pathways compatible with the Paris Agreement and the CBDR-RC principle for entities in EMDE jurisdictions.

#### Case Study 1 – Interim Metrics and Targets Factor Alignment

A mid-sized UK-based cement manufacturer, has set a 2030 interim target to reduce its Scope 1 and 2 emissions by 42% from a 2020 baseline, aligned with a 1.5°C pathway. The target covers direct emissions from clinker production and purchased electricity, which together account for over 90% of its operational emissions. Scope 3 emissions, primarily from upstream fuel transport and downstream concrete use, are not yet fully covered by a decarbonisation target but are addressed through operational targets.

These operational targets include:

- 20% reduction in fossil fuel use in logistics by 2028, using the 2020 baseline, through fleet electrification and modal shift to rail (*to reduce upstream transport emissions*)
- 80% of tier one suppliers to align with the company's climate criteria by 2029, including emissions disclosure and target-setting (*to support decarbonisation of purchased goods and services*)
- 30% of revenue from low-carbon cement products by 2030, driven by innovation in clinker substitutes (*to incentivise product-level emissions reduction and shift demand*)

To support the delivery of these targets, the manufacturer monitors the following metrics:

- Units of fossil fuel consumed, e.g. km travels with fossil fuel vehicles or litres of fuel used
- Number of suppliers aligned to climate criteria
- Revenue associated with low-carbon cement products

The company reports progress annually, showing a 12% reduction in Scope 1 and 2 emissions by 2024. It discloses its baseline year, methodology, and key assumptions, including reliance on



carbon capture and storage (CCS) by 2028, increased availability of alternative fuels, and stable regulatory incentives.

The company benchmarks progress against peers and commits to reviewing targets every three years. While its primary target is intensity-based (kg CO<sub>2</sub>/tonne cement), it also reports absolute emissions for transparency.

### **Case Study 2 – Engagement Factor Alignment**

A chemicals manufacturer based in Western Europe has made engagement a central pillar of its transition planning. Recognising that internal action alone would not be sufficient to meet its decarbonisation targets, the company focused on securing external enablers; particularly access to low-carbon energy and supportive policy frameworks.

It developed a formal engagement plan, targeting key stakeholders, including federal and regional governments, energy providers, and industry associations. The company aligned its decarbonisation roadmap with national climate policy and actively participated in industrial decarbonisation consultations. It also collaborated with peers to advocate for a shared hydrogen pipeline serving its industrial cluster.

This engagement contributed to a co-investment agreement secured in 2024, with the government committing €50 million in public funding to support the company's transition to green hydrogen. Hydrogen use is expected to begin by 2026 and reduce Scope 1 emissions by around 20% by 2030. The company also secured preferential access to renewable electricity via a regional procurement scheme, supporting its Scope 2 emissions reduction target of 35% by 2030.

While acknowledging regulatory and infrastructure challenges, the company has put risk mitigation measures in place and maintains ongoing dialogue with stakeholders.

The strategy is owned at the executive level, with transparent reporting on objectives, progress, and outcomes. This case illustrates the importance of the Principle of Addressing Dependencies and how proactive engagement to address material dependencies can demonstrate strong alignment with the Engagement Factor under the Council's Guidelines.

## Appendix 2 - Example interpretive guidance on the application to different asset classes

We are working to provide brief interpretive guidance on the application of the Guidelines to different asset classes. See below an example of key considerations for public equity investors.

### **Key considerations for public equity investors**

#### **Transition criteria as a component of investment strategy**

In the context of public equities, several factors influence a capital provider's ability to assess whether investments in entities may be classified as 'transition finance':

I. **Data availability and strategy type**

Public companies typically disclose more data than private ones, and many are covered by commercial ESG and climate data providers. This makes it easier, particularly for active managers, to assess the extent to which investee companies meet the transition criteria. In contrast, passive strategies generally lack the discretion or tools to apply these assessments unless they track climate-specific benchmarks.

II. **Complexity of company activities**

Large publicly listed companies typically have diverse business activities, making it less straightforward to define specific "solutions" or transition pathways compared to instruments like labelled bonds or corporate finance.

III. **Variety of equity fund strategies**

Equity funds range widely; from highly concentrated, actively managed portfolios with deep fundamental research on individual holdings, to broadly diversified quantitative or passive funds. This has implications for whether and how a fund can demonstrate that its holdings meet transition finance criteria.

IV. **Portfolio diversification and transition thresholds**

Given the nature of public equity markets and diversification needs, not all transition-focused equity funds will hold 100% of assets in specific transition investments.

Investors can, therefore, set minimum thresholds for transition-aligned assets within funds to maintain meaningful climate impact, potentially aligning with local regulations or guidelines such as ESMA fund labelling.

#### **Engagement**

Ownership in public equities is typically diffuse, limiting the direct influence of individual investors. Additionally, new capital-raising in equity markets is relatively rare, meaning most activity involves trading existing shares rather than providing new finance. Given these factors,

engagement and stewardship become essential levers for supporting credible transition outcomes and encouraging alignment with the Guidelines' Factors over time.

To encourage this alignment, transparency is first essential to understand how a fund applies the Guidelines, including:

- Whether the fund is invested fully or partially in entities that already meet the Factors;
- Whether it uses engagement to support alignment over time, with clarity on:
  - The intended timeframe for progress,
  - The escalation strategy if progress is insufficient (e.g., voting action, divestment),
  - How performance will be measured;
- Whether a combination of these approaches is used.

#### I. **Individual engagement strategies**

Capital providers can apply a range of stewardship strategies - including direct dialogue with investors, written communication, public statements, and participation in AGMs - to assess and influence a company's transition commitment. These activities can help evaluate how companies align with the Universal Factors and encourage improvement where needed.

#### II. **Collaborative initiatives**

To amplify impact, capital providers may, to the extent permissible under applicable law, collaborate with others who share similar expectations on transition credibility.

This collaboration can occur through:

- a. Formal coalitions such as Climate Action 100+, IIGCC, or NZAM
- b. Informal alliances formed around specific sectors, geographies, or issues

#### III. **Voting behaviour as a stewardship tool**

Capital providers may also choose to strategically use their shareholder voting rights to support credible transition action by:

- Voting for shareholder resolutions that enhance credibility, such as those seeking science-based targets, improved disclosure, or third-party assurance
- Voting against directors or transition plans where there is a failure to deliver on key Universal Factors (e.g. lack of near-term actions or weak governance)
- Supporting or requesting "Say on Climate" votes as a means to hold companies accountable for progress

#### IV. **Macro stewardship**

Engagement is not limited to investee companies; capital providers can also engage with policymakers and regulators to articulate expectations around financial market frameworks and real economy transition policies.