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Global

Consensus Gradually Emerges on Credible Transition Finance

Guidelines Emphasise Ambition, Implementation and Transparency

The Transition Finance Council (TFC), the body set up by the UK government and City of London Corporation to promote transition finance, released its draft guidelines for consultation in August. While not focusing on specific financial instruments or products, we believe the guidelines aim to support financing for entities, particularly in high-emitting and hard-to-abate sectors, whose emissions trajectory is aligned with a credible decarbonisation pathway.

New Guidelines Emphasise a Principles-Based Approach

Sustainable Fitch observes that the guidance sets out four principles for entity-level financing that need to hold true to ensure credibility. These include:

- Evidence of sufficient ambition on the part of the borrower/investee (compatible with the Paris Agreement goals) to reduce emissions;
- Implementation actions and progress, transparency;
- Integration with entities' planning; and
- Governance systems, and acknowledgment of dependencies/ contingent factors.

Evidence of satisfying these principles is determined by what the TFC guidance terms 'universal factors', such as evidence of interim targets, reporting of implementation progress and financial viability. 'Contextual factors' may also be assessed depending on the entity's sector, location and size, included here as just transition and do no significant harm considerations.

Being principles-based, we view that the guidance does not set out specific thresholds or strict criteria, but it does reference, and is intended to be interoperable with, requirements and criteria articulated in other standards/frameworks, taxonomies and benchmarks. Its definition credible pathway allows flexibility provided the level ambition is benchmarked against a recognised Paris-aligned scenario/pathway.

Transition Finance Guidance: Selected Examples

Organisation	Name	Instruments/ assets	Year announced	Status
Transition Finance Council (UK)	Transition Finance Guidelines	Bonds, loans, equity, others	2025	Draft – out for consultation
Loan Market Association	Transition Loan Principles	Loans	2024	In development
OECD	Guidance on Transition Finance	Bonds, loans, equity, others	2022	Finalised
Japan – Ministry of Economy, Trade and Industry	Basic Guidelines on Climate Transition Finance	Bonds, loans	2020 (follow-up guidance in 2023)	Finalised
ICMA	Climate Transition Finance Handbook	Bonds	2020 (updated 2023)	Finalised

Source: Sustainable Fitch

Common Elements Emerging Across Transition Finance Guidelines

The TFC guidance is the latest of several guidelines that seek to support financing enabling entities to decarbonise, while allaying concerns of investors/lenders and other stakeholders

Related Research

State of Play: Corporate Climate Targets (May 2025)

FAQs: Transition Assessments from Sustainable Fitch (February 2025)

Transition Assessment Methodology (January 2025)

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regarding greenwashing and carbon lock-in. These tend to be pitched at an entity level – rather than the activity-level classifications found in sustainable finance taxonomies incorporating transition components (such as Australia's) – and complement frameworks and guidance supporting transition plan disclosure, such as the guidance published by the ISSB in June.

The structures and certain details of these various guidance documents varies, e.g. the OECD's guidance outlines 10 'elements' for transition finance to be credible, including just transition requirements, while Japan's guidance includes sector-specific decarbonisation roadmaps. We observe that certain core elements are common across them:

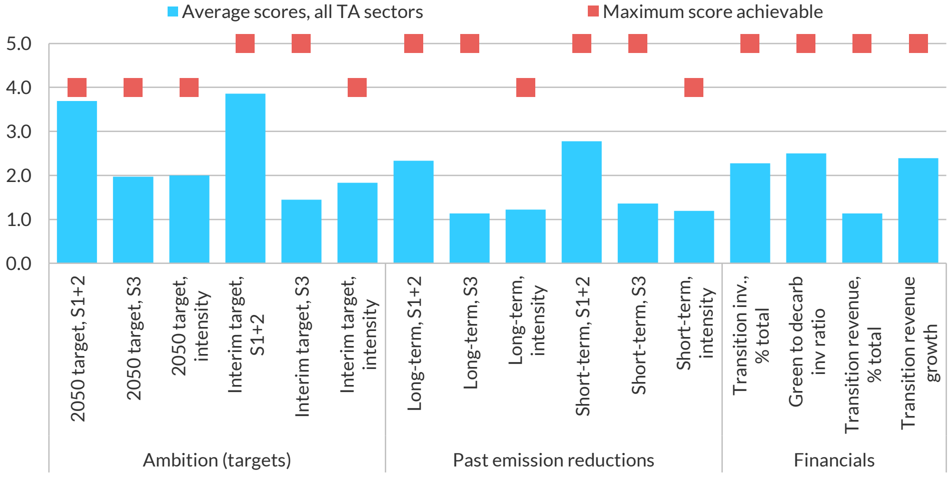
- The borrower/investee should have targets and plans consistent with the Paris Agreement and a credible decarbonisation pathway;
- planned implementation actions are integrated with the entity's wider business strategy
- carbon lock-in is mitigated; and
- there should be adequate transparency (e.g. reporting) and governance structures in place to ensure accountability.

Assessments Pressure Test Entities' Transition Progress

These elements are included in Sustainable Fitch's methodology for assessing entities' transition plans, their implementation and progress to net zero. Our Transition Assessment (TA) gauges the level of ambition to decarbonise as demonstrated by the scale of emissions cuts pledges and progress on decarbonisation. In both cases, scoring thresholds are informed by credible decarbonisation pathways appropriate to the hard-to-abate sectors covered by the TA.

Another core element is an evaluation of the share of investment entities allocate to transition-related activities and the revenues being generated from these activities. Cross-sector as well as sector-specific adjustments are then applied to the score. These consider further aspects, such as high-impact decarbonisation levers, carbon lock-in and governance/transparency.

Transition Assessment Average Scores (September 2025 Data)



Note: Scores out of 4 or 5, where 0 = worst. N = 36 assessments (mix of solicited and unsolicited/desktop TAs). N = 36 assessments (mix of solicited and unsolicited/desktop TAs.
Source: Sustainable Fitch

Based on our TAs, most assessed entities feature robust targets covering their direct emissions and emissions related to purchased energy (Scope 1 and 2). Value chain-related emissions targets (Scope 3) remain a weak area, with several entities scoring '0/5', indicating no target. This includes several oil and gas and mining companies, for whom Scope 3 represents by far the largest component of their carbon footprints.

All the assessed companies allocate some investment to the transition projects – indeed, nearly a fifth of entities in sample allocate over half of total investment to transitioning. However, revenue data indicates most entities are yet to transform their business models towards low-carbon activities (most generate less than 1% of total revenue from such activities).