Principles note



Transition Loan Principles

November 2026

LMA Loan Market Association | 30 YEARS SHAPING MARKETS THEN AND NOW | LSTA ADVANCING THE CORPORATE LOAN MARKET | APLMA Asia Pacific Loan Market Association

Interpretation of Terms

The following definitions provide guidance for understanding and implementing the Transition Loan Principles:

- **"Shall": Indicates a mandatory requirement.**
- **"Should": Indicates a recommendation.**
- **"May": Indicates an optional course of action.**
- **"Can": Indicates possibility or capability, for example, that an organisation or individual is able to act.**

For all other terms, a plain English approach is adopted.

Introduction

Loan markets play a pivotal role in supporting the transition to a low-carbon economy. With the capacity to mobilise significant capital across sectors and geographies, they are well positioned to facilitate the investments required to achieve global climate goals. As companies increasingly seek to align with evolving policy, regulatory and market expectations, demand for financing solutions that support credible transition strategies continues to grow.

The Transition Loan Principles (*TLP*) aim to promote the integrity and development of the transition loan market by providing a voluntary, high-level framework of guidelines for use of proceeds transition loans. The transition loan label is intended for use of proceeds financing instruments which are aligned to the TLP[1].

Developed by an experienced working party representing participants across global loan markets, the TLP are intended to be applied on a deal-by-deal basis, recognising the diversity of transition pathways, sectoral and regional contexts and stages of development. They seek to promote transparency, consistency and clarity, while retaining the flexibility necessary to support credible transition pathways in diverse regional contexts.

The TLP also provide a practical framework to guide market participants in identifying and assessing the defining characteristics of a credible use of proceeds transition loan. Building on existing sustainable and transition finance frameworks, they encourage the use of relevant sectoral and national pathways, taxonomies, technology roadmaps and policy frameworks consistent with the goals of the Paris Agreement. Recognising that many economic activities are not yet aligned with a low-carbon economy, the TLP aim to facilitate financing that supports their transition to become compatible with the goals of the Paris Agreement, while allowing for regional and sectoral differences in starting points and capacities.

Projects financed under a transition loan should contribute meaningfully to climate change mitigation and form part of a broader, credible transition strategy. They should be underpinned by credible near or long-term greenhouse gas (*GHG*) emissions reduction planning, supported by appropriate governance, recognised methodologies and metrics, and embedded within a broader approach to decarbonisation that appropriately identifies and seeks to avoid or manage carbon lock-in risks, and supports alignment with the goals of the Paris Agreement over time. Transparency, accountability and context sensitivity are therefore integral to the application of the TLP.

The TLP are intended to evolve alongside market practice, regulatory developments, technological developments and advances in transition planning, and will be reviewed on a regular basis to reflect such developments and support the continued growth of the transition loan market.

[1] Sustainability-linked loans can also support a borrower's transition journey and, where structured appropriately and consistent with the Sustainability-Linked Loan Principles, may be referred to as transition-themed sustainability-linked loans. See sections 2.A, 2.E and 3.B.I.h) of the Guidance on Sustainability-Linked Loan Principles (November 2026) for further guidance.

Definition

Transition loans are any type of loan instrument and/or contingent facility (such as bonding lines, guarantee lines, or letters of credit) where the proceeds or an equivalent amount shall be exclusively applied to finance, re-finance or guarantee, in whole or in part, new and/or existing eligible Transition Projects (as defined under Use of Proceeds below) and which are aligned to the five core components of the TLP.

Transition Loan Principles – Core Components

The TLP set out a framework, enabling all market participants to clearly understand the characteristics of a transition loan, based around the following five core components:

1. Entity-Level Transition Strategy
2. Use of Proceeds
3. Process for Project Evaluation and Selection
4. Management of Proceeds
5. Reporting

The TLP also seek to emphasise the required transparency, accuracy and integrity of the information that shall be disclosed and reported by borrowers to stakeholders through these core components.

1. Entity-Level Transition Strategy

Borrower presentation of a credible entity-level transition strategy provides the necessary context to ensure that individual Transition Projects contribute meaningfully to the borrower's overarching GHG emission reduction strategy, and, where feasible/relevant, to the local energy transition strategy.

An entity-level transition strategy should be consistent with a long-term Paris-aligned transition and evidenced through:

- a published or actively developed transition plan or planning process; or
- in cases where a transition plan or planning process does not exist, other credible evidence of alignment with recognised transition frameworks and science-based decarbonisation pathways, taking into account, for example, applicable national and regional decarbonisation policies, credible evidence of alignment to sector, science-based or country-level pathways, technology roadmaps and other relevant reference pathways[2].

2. Use of Proceeds

A fundamental determinant of a transition loan is the utilisation of loan proceeds for Transition Projects, which shall be appropriately described in the finance documents and, where applicable, in marketing materials and/or a transition loan framework. All designated Transition Projects shall contribute meaningfully to the decarbonisation of the real economy, which shall be assessed and, where feasible, quantified by the borrower. Each Transition Project shall also be demonstrably linked to, and support the implementation of, the borrower's overall transition strategy and should be consistent with an appropriate and credible reference pathway.

[2]The reference pathways used should be appropriate to the borrower's sector, jurisdiction, regulatory & operating context, supported by credible evidence and consistent with the goals of the Paris Agreement.

Transition loans may finance full Transition Projects or specific components of such projects, including capital expenditures (*CapEx*), operating expenditures (*OpEx*), research and development (*R&D*), and managed phase-out or decommissioning expenditures, where these are integral to a broader decarbonisation strategy.

"Transition Projects" include assets, investments, activities and related expenditures that may not yet be aligned with the goals of the Paris Agreement but contribute meaningfully to the decarbonisation of the real economy. These projects should be on a credible pathway compatible with the goals of the Paris Agreement, with quantifiable, substantial and clearly defined emissions reductions within an identified timeframe in line with the borrower's overall transition strategy.

Where national, regional or market-based taxonomies for transition projects exist, borrowers should consider appropriate alignment of Transition Projects to the respective taxonomy and identify the same to the lender group, recognising that definitions of transition and Transition Projects may vary depending on sector and geography.

3. Project Evaluation and Selection

The borrower of a transition loan shall clearly communicate to its lenders the rationale and governance behind the selection of eligible Transition Projects, including:

- the borrower's internal process used to assess and determine project eligibility as a credible transition project and how the transition project support's the borrower's transition strategy; and
- the processes by which the borrower identifies and manages perceived, actual or potential environmental and social risks and externalities associated with the proposed Transition Project.

The borrower should also:

- provide information, if relevant, on the alignment of projects with official or market-based taxonomies, standards or other industry aligned frameworks and related eligibility criteria, including, if applicable, exclusion criteria;
- confirm the absence of low carbon alternatives and, where relevant, consider the most efficient alternate that are technically and/or economically feasible within the local market and sector;
- where relevant, assess whether the proposed project risks locking in carbon-intensive practices that may delay or undermine long-term decarbonisation goals, taking into account its own transition strategy and applicable sectoral or regional decarbonisation pathways; and
- identify any material assumptions, dependencies or enabling conditions affecting the expected contribution of the Transition Project to the borrower's transition strategy.

4. Management of Proceeds

The net proceeds of the Transition Loan, or an amount equal to these net proceeds, shall be credited to a dedicated account or otherwise tracked by the borrower in an appropriate manner, so as to maintain transparency and promote the integrity of the product.

Management of proceeds should be attested to by the borrower in a formal internal process linked to the borrower's lending and investment operations for Transition Projects. The borrower should make known to the lenders any intended types and durations of temporary placement for the balance of unallocated proceeds.

Where a transition loan takes the form of one or more tranches of a loan facility, each tranche applicable to the Transition Project(s) shall be clearly labelled, with net proceeds, or an amount equivalent to the net proceeds, of the transition tranche(s) credited to a separate account or otherwise tracked by the borrower in an

appropriate manner. For the avoidance of doubt, a facility cannot be labelled as "transition" if it includes a transition and non-transition tranche; the transition label applies only to the tranche(s) aligned to the five core components of the TLP.

The proceeds of transition loans can be managed per loan (loan-by-loan approach) or on an aggregated basis for multiple transition loans (portfolio approach).

5. Reporting

Borrowers shall make and keep readily available up-to-date information on the use of proceeds, such information to be renewed at least annually until the transition loan is fully allocated (or until the loan maturity in the case of a revolving credit facility), and on a timely basis in the event of material developments.

This annual report shall include:

i. a list of the Transition Projects to which the transition loan proceeds have been allocated and a brief description of the projects;

ii. the amounts allocated to each Transition Project; and

iii. the expected and, where feasible, achieved impact of each Transition Project, including its contribution to the borrower's transition strategy and/or with the local transition roadmap, together with any material development affecting the assumptions, dependencies or enabling conditions underpinning that expected contribution.

Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the information can be presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories). Information need only be provided to those institutions participating in the loan, but borrowers should make this information public where feasible.

Transparency is of particular value in communicating the expected and/or achieved impact of Transition Projects. The TLP recommend the use of quantitative performance measures, where feasible, and qualitative indicators where these provide useful context. Quantitative measures may include, as applicable, absolute and/or relative GHG emissions reduced or avoided, improvements in energy efficiency or energy intensity, and other relevant project-specific metrics. Borrowers should disclose the key methodologies and assumptions used in determining the reported impact, together with any material limitations or uncertainties.

Where feasible, and particularly for loans with longer tenors, borrowers should also report forward-looking metrics such as projected emissions reductions, expected CapEx and R&D allocations for any undeployed proceeds, and implementation timelines.

Review

Where appropriate, borrowers should appoint external review provider(s) to assess the alignment of the transition loan, associated financing framework, and/or Transition Project(s) with the TLP and the applicable eligibility criteria, particularly where the borrower is unable to demonstrate sufficient internal expertise or resources to confirm such alignment.

Principles note

Disclaimer

This document is intended as an overview and is not intended to be comprehensive. While every care has been taken in its preparation no representation or warranty is given by the LMA or the authors as to the accuracy or completeness of the contents of this document. Most importantly, this document is not intended to provide legal or other advice on any matter whatsoever. © Loan Market Association. All rights reserved

LMA Loan Market Association | 30 YEARS SHAPING MARKETS THEN AND NOW | LSTA ADVANCING THE CORPORATE LOAN MARKET | APLMA Asia Pacific Loan Market Association