APLMA Asia Pacific Loan Market Association | LMA Loan Market Association | LSTA Advancing the Corporate Loan Market

Guide to Transition Loans

October **2025**

Table of Contents

Introduction

Loan markets can play a pivotal role in the global push toward net zero. With the capacity to direct significant capital flows, these markets are uniquely positioned to support the systemic shift required across industries and economies. As companies accelerate efforts to future-proof their operations against climate risks, demand for financing that reflects credible transition strategies is rising. In response, lenders are evolving, developing transition-focused financial structures that meet borrowers' needs.

Achieving global net-zero greenhouse gas *(GHG)* emissions by 2050 will require unprecedented investment, with the private sector expected to contribute the lion's share. As companies and lenders work to align with these climate goals, "transition finance" has emerged as a key tool to support the decarbonisation of hard-to-abate and/or high-emitting sectors. While the 2050 target sets a clear ambition, progress will follow diverse and non-linear pathways, reflecting the unique challenges and opportunities across industries. At the same time, inconsistent definitions and applications of transition finance continue to create uncertainty for market participants seeking clarity and confidence in this evolving space.

Given this evolving landscape, it is helpful to distinguish between two related but distinct concepts: "financing the transition" and "labelled transition finance"[1]. *Financing the transition* refers to the mobilisation of all forms of capital, labelled[2] and/or unlabelled, across the economy to support decarbonisation, including investments in sectors already aligned with low-carbon objectives. It represents an economy-wide movement toward a net-zero future. *Labelled transition finance*, by contrast, is a subset of this broader effort, applicable at the transaction level. In the loan market, this may include instruments such as sustainability-linked loans[3] (*SLLs*), transition loans, or hybrid structures [4], which are specifically designed to help companies, particularly those in high-emitting or hard-to-abate sectors, decarbonise over time.

Market participants currently face several barriers to scaling transition finance. These include fragmented taxonomies (often limited in scope or geographic applicability), sectoral and regional divergences, challenges with verifying alignment and ensuring adequate and consistent reporting, and uncertainty around scalability and life-cycle impacts of certain technologies, for example, biofuels or carbon capture.

This Guide seeks to clarify what constitutes labelled transition finance, how it can be integrated into existing financial instruments, and introduces a voluntary, cross-jurisdictional framework for asset/project-level, use of proceeds transition loans[5], being financial instruments designed to support climate-aligned activities that fall outside the "green" classification.

[1] For the purposes of this Guide, unless otherwise noted, "Transition Finance" shall mean labelled transition finance.

[2] Including, but not limited to, green, transition and sustainability-linked loans.

[3] See APLMA, LMA and LSTA's Sustainability-Linked Loan Principles, March 2025.

[4] Hybrid structures referring to instances when sustainability-linked loans and use of proceeds loan structures are used in combination. See Section 2.G of the Guidance on Sustainability-Linked Loan Principles, March 2025.

[5] Note that both SLLs and use of proceeds instruments can be structured to support either general corporate financing or specific asset/project financing. In practice, the choice of instrument depends on the borrower's transition strategy, the nature of the activities being financed, and the outcomes sought.

Drawing on best practices and emerging standards, this Guide recognises that transitioning to a low-carbon economy is complex and context-specific. It requires innovation, adaptability, relevant science-based pathways, and coordinated effort among financiers, borrowers, regulators and policymakers.

Without robust public policy, regulatory support, and cross-border cooperation, market action alone will be insufficient. But with the right tools and shared understanding, loan markets can serve as a powerful engine for financing real-world decarbonisation.

Part 1: Defining transition finance

Building on the work of the G20 Sustainable Finance Working Group, the Organisation for Economic Co-operation and Development *(OECD),* the European Commission and others (as detailed in Appendix 1), transition finance is comprised of the following components:

1. Objective-Aligned	supports an economy-wide transition to net-zero GHG emissions, compatible with the Paris Agreement's average global temperature goals, acknowledging the principle of common but differentiated responsibilities and respective capabilities[6].
2. Avoids Lock-In Risks	avoids lock-in of carbon-intensive assets, value chains, infrastructure and territorial arrangements that would delay or obstruct long-term decarbonisation goals and increase stranding risk[7].
3. Benchmarked Against Science	impacts and trajectories should be benchmarked against science- based transition pathways[8], where such pathways are available and achievable for the sector, region or jurisdiction.

In the context of use of proceeds transition finance, the following additional components are relevant:

4. Do No Significant Harm[9] (DNSH) to Other Goals	ensures that, in pursuing climate mitigation (or other sustainability goals), an asset/project does not cause significant or unmitigated harm to other environmental or social objectives. This includes avoiding adverse impacts on biodiversity, water use, pollution prevention, circular economy outcomes, and fundamental labour and human rights. DNSH serves as a safeguard to promote a just, balanced, and environmentally coherent transition.
5. Impact-Oriented	activities should contribute meaningfully to short-to-long term decarbonisation targets, and should demonstrate tangible GHG emissions reduction benefits, either quantitatively measured or qualitatively justified, as part of a broader strategy to reduce emissions over time.
6. Absence of Low Carbon Alternatives	there should be an absence of low carbon alternatives that are technically and/or economically feasible within the local contexts, acknowledging the varying pathways, starting points and dependencies of countries and sectors in the global transition, and be practically feasible for the borrower to implement.

[6] A Paris-aligned reference point provides a common, scientifically grounded benchmark for assessing the credibility of transition plans, particularly in light of the growing gap between current national commitments and the Paris Agreement's goal of limiting the increase in global average temperature to well below 2°C above pre-industrial levels, while pursuing efforts to limit it to 1.5°C.

[7] See OECD's Mechanisms to Prevent Carbon Lock-in in Transition Finance | OECD and EBRD's carbon lock-in tests in its Methodology to determine the Paris Agreement alignment of EBRD investments for further information.

[8] For example, those provided by the International Energy Agency (*IEA*), the Intergovernmental Panel on Climate Change (*IPCC*) and Science Based Targets Initiative (*SBTi*).

[9] "Do No Significant Harm" is a concept broadly consistent across several international sustainable finance frameworks, with direct references found in taxonomies such as those of the EU, Australia, Rwanda, Singapore-Asia and ASEAN. While the precise definitions and thresholds may differ between jurisdictions, this Guide applies the principle of DNSH as a safeguard to encourage balanced, responsible, and contextually appropriate decision-making.

Transition finance is focused on enabling real-world decarbonisation by supporting GHG emissions reduction, particularly in hard-to-abate and/or high-emitting sectors[10]. It also plays a critical role in helping lenders better manage climate-related risks.

Borrowers seeking to transition should prioritise the actual reduction of net GHG emissions rather than the relative reduction of GHG emissions. Where immediate reductions are not feasible, due to technological, commercial, or market constraints, a credible interim pathway should be pursued. This pathway should be consistent with Paris-aligned goals. Regardless of interim steps, a borrower's long-term ambition of reaching net-zero should remain central.

While it is particularly suitable for hard-to-abate and/or high-emitting sectors, transition finance may be applied more broadly, across industries and geographies, provided activities meet applicable criteria and align with credible decarbonisation pathways. This inclusive approach recognises that appropriate solutions will vary by technology, sector, region, and jurisdiction, and must accommodate diverse starting points and capabilities.

Part 2: Credible transition strategies

This section sets out the key components that demonstrate whether a borrower's transition strategy and activities are consistent with a long-term Paris-aligned transition, while accounting for sectoral, regional, and operational context. This is important to make sure that a borrower's specific transition investments support its overall strategic net-zero direction. Transition finance thus necessitates a combined focus on entity and asset/project level.

At the entity-level, transition finance should focus on the credibility of a borrower's GHG emission reduction strategy[11], encompassing its commitments, practices and performance across past, present and future timeframes.

[10] High-emitting sectors are industries that contribute the largest share of overall GHG emissions. These sectors are major drivers of climate change due to their high levels of fossil fuel use or other emission-intensive processes. Hard-to-abate sectors are industries where reducing carbon emissions is especially difficult due to technical, economic, or infrastructural barriers. These sectors often cannot rely solely on renewable energy for decarbonisation and typically include industries that are essential to the global economy.

[11] Where the borrower is a financial institution, this should also consider the integrity and ambition of their transition plans, including how they engage with and support high-emitting clients in reducing emissions over time. Short-term increases in financed emissions may occur as institutions enable credible transition pathways, but these should be transparently managed within a robust, forward-looking climate strategy.

A credible transition strategy may be demonstrated through various means, including but not limited to:

I. a transition plan or planning process (see Part 2.1); or

II. a robust set of indicators showing alignment with recognised transition themes and decarbonisation pathways (see Part 2.2).

The assessment of any transition strategy should be grounded in the facts at hand, taking into account the complexity and scale of the borrower. For example, large or diversified companies may have multiple transition plans tailored to different national or global contexts, while investment funds may articulate strategies at the group or portfolio level. Where possible, the strategy should reflect a borrower's governance structures, stakeholder engagement, and adaptability to evolving climate policies and market conditions.

At the asset/project level, transition finance should support projects or operations that align with the borrower's broader transition strategy and contribute meaningfully to decarbonisation objectives. Assets/projects should demonstrate clear climate impact, either through direct emissions reductions or by enabling system-level change, and, where feasible, be grounded in science-based, context-specific pathways. Crucially, asset/project-level alignment must not be assessed in isolation. Projects should reflect and reinforce the borrower's overarching transition strategy, ensuring coherence between what the borrower is doing at the operational level and what it is aiming to achieve at the strategic level.

Part 2.1: Transition plan or planning process

A transition plan provides a useful tool when assessing a borrower's eligibility for transition finance. It is "[a]n aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions"[12].

To ensure credibility, certain guardrails are necessary. Robust transition plans are typically science-based and aligned with recognised international and national frameworks (see Appendix 2). These frameworks help validate the credibility of a borrower's climate commitments and decarbonisation efforts.

The core components of a transition plan[13] typically include:

1. Strategy	the borrower's ambition and enabling conditions that set the vision and roadmap for the transition.
2. Strategy Implementation	concrete actions and decarbonisation levers employed to realise the strategy.
3. Metrics and Targets	quantitative and qualitative indicators that track progress over time, including, but not limited to, GHG emissions reduction, the share of capital expenditure *(CapEx)*, operational expenditure *(OpEx)*, and revenues linked to carbon-intensive versus low-carbon activities.
4. Governance	mechanisms for monitoring, accountability, and adjustment of delivery against the plan.

[12] IFRS, Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2, June 2025.

[13] These core components are consistent with the Transition Planning Taskforce *(TPT)* Framework, grounded in Glasgow Financial Alliance for Net Zero *(GFANZ)*.

Borrowers may adopt existing or forthcoming national, regional, or voluntary transition planning frameworks, as applicable, in preparing their transition plans. Regardless of the framework chosen, plans should clearly detail the borrower's contribution to economy-wide transition, the key measures and timelines for delivery, the governance approach, and how progress will be tracked, reported, and regularly reviewed.

Part 2.2: Indicators of transition

Where a (public) transition plan, as described in Part 2.1 above, is unavailable, evidence from climate disclosures and other documentation may serve as a proxy. Such documentation may include, but is not limited to:-

- publication of climate-related disclosures or relevant reporting;
- corporate governance structures and processes for overseeing the transition strategy's implementation and monitoring;
- integration of transition objectives into corporate strategy, decision-making, and remuneration;
- expected (absolute and by physical output) GHG emissions reductions aligned with Nationally Determined Contributions *(NDCs)*[14], sector-specific pathways, taxonomies, national carbon budgets or other official frameworks consistent with the goals of the Paris Agreement;
- time horizons for phasing out high-emitting technologies, assets, or sites;
- allocation and share of CapEx and OpEx and disclosure of relevant joint venture and off-balance sheet investment toward transition-aligned activities, including adoption of decarbonisation levers and circular transition solutions;
- investment in research and development (*R&D*) for low-carbon technologies or practices;
- technology adoption milestones;
- engagement strategies involving value chains, industry peers, governments, public sector bodies, communities, and civil society; and/or
- performance benchmarks, such as carbon intensity relative to industry averages.

While each indicator may provide insight, it is the collective presence of several indicators that can more robustly demonstrate a borrower's commitment to the transition and help avoid excluding those who currently lack the resources for a full transition plan. Therefore, the borrowers should use multiple indicators.

Borrowers should strive to articulate any key dependencies, assumptions, and enabling conditions that underpin their ability to meet these indicators. This may include reliance on external policy measures (e.g., carbon pricing, subsidies, etc.), sectoral decarbonisation pathways, technology availability, or market access. Transparency around such dependencies allows lenders to more accurately assess the feasibility of transition progress and identify risks or barriers that may need to be mitigated or monitored throughout the financing period.

[14] Given NDCs reflect a country's political commitment to decarbonisation, they represent its willingness and capacity to act, rather than an objective, science-based assessment of compatibility with the Paris Agreement goals at the level of economic activity. The NDCs of many countries currently fall short of a 1.5°C, or even 2°C, trajectory, and some operate on timelines beyond 2050 under the Paris Agreement. Caution should therefore be exercised when referencing NDCs as a sole benchmark for alignment with credible net-zero pathways.

Part 2.3: Contextualisation and practicality

Transition plans and/or associated indicators must be context-specific, taking into account the borrower's sector, regional realities, and/or market best practices. This contextualisation is particularly, but not exclusively, crucial for small and medium-sized enterprises *(SMEs)* and emerging market and developing economies *(EMDEs)*, who often face greater challenges in outlining long-term net-zero pathways due to technological, economic, and/or infrastructural constraints. In such cases, shorter-term targets and implementation measures may provide a more realistic and credible basis for transition financing than distant net-zero ambitions. Strategies should focus on achievable, commercially and technologically feasible steps at the time of capital deployment, with a commitment to periodically update and enhance transition processes as conditions evolve.

Part 3: Transition finance: labelled-loans

Transition loans are designed to channel capital toward the transformation of borrowers' business models and/or the progressive reduction of their GHG emissions profiles over time.

Given the complex nature of sustainable finance, spanning diverse sectors, regions and regulatory environments, a case-specific approach is essential when determining eligibility for transition loans. Transition finance may be structured as:

I. **a general corporate financing of entities;** and/or

II. **a specific use of proceeds financing of assets/projects,** enabling the transition strategy through specific investments[15].

Credibility and integrity are foundational principles in ensuring that transition loans are effective and trustworthy financial instruments. Whether structured as general corporate financing or specific use of proceeds financing, the instrument must be appropriately aligned with the nature and purpose of the entity or asset/project being financed.

Both SLLs and use of proceeds instruments can be structured to support either general corporate or specific asset/project financing. The choice of instrument depends on the borrower's transition strategy, the nature of the activities being financed, and the outcomes sought. For the purposes of this section, we focus on the application of SLLs in the context of general corporate financing (Part 3.1) and the use of proceeds transition loan instrument in the context of asset/project financing (Part 3.2), while recognising that in practice both instruments can be applied across financing contexts as borrower needs evolve.

Part 3.1: General corporate financing of entities[16]

SLLs, as defined under the Sustainability-Linked Loan Principles *(SLLP)*[17] ,are key instruments in transition finance for supporting entity-level transition efforts[18]. These loans are designed to incentivise borrowers to set and achieve material, ambitious, pre-determined, regularly monitored and externally verified sustainability objectives at a strategic top-levael (e.g. science-based decarbonisation targets for the borrower's material GHG emissions).

[15] Both structures can utilise SLLs, use of proceeds instruments and/or a mix of both.

[16] This Part 3.1 will be incorporated into the Guidance on Sustainability-Linked Loan Principles upon completion of the Exposure Draft review period (see Part 3.2 below).

[17] See APLMA, LMA and LSTA's Sustainability-Linked Loan Principles, March 2025.

[18] Note that use of proceeds instruments can also be used to support entity-level transition efforts.

An effective decarbonisation focused, transition-themed SLL[19] aligns with the borrower's transition strategy and relies on carefully selected:

i. Key performance indicators *(KPIs)* that support the borrower's GHG emissions reductions. These KPIs may be direct, through absolute or intensity-based GHG emissions metrics, or supportive proxies, including metrics that drive progress toward GHG emissions reduction targets, such as low-carbon CapEx or R&D allocations.[20]

KPIs should cover the borrower's material Scope 1,2, and, where material, Scope 3[21] GHG emissions. Any exclusions should be clearly justified by recognised sectoral science-based standards. In cases where a Scope 3 GHG emissions KPI is not feasible, supportive proxy KPIs may be used instead.

KPIs shall also be core, material, measurable, quantifiable, and benchmarkable, as outlined in the SLLP. They may additionally reflect product or physical carbon intensity (rather than revenue intensity), expected abatement impact of major mitigation actions, implementation timelines at plant, entity or group level (e.g. for new low carbon technologies adoption or decommissioning of high-emitting assets) and should consider lock-in risk and alignment with climate scenarios, regional policies, sectoral pathways, and just transition principles.

ii. Sustainability performance targets *(SPTs)* which should be calibrated with integrity and ambition. SPTs must go beyond "Business as Usual" trajectories and applicable regulatory requirements, reflecting robust decarbonisation pathways and governance structures. They should draw on credible external benchmarks, such as science-based targets, national/regional decarbonisation guidance and climate policies, and technology roadmaps. The robustness of the borrower's decarbonisation strategy, governance, metrics and data will also influence the credibility of the SPTs.

Given the dynamic, forward-looking and holistic nature of an effective transition strategy, SLLs' flexibility and outcome-based design make them a powerful tool to align corporate behaviour with long-term climate objectives. When underpinned by rigorous KPI selection, ambitious SPT calibration, and transparent reporting with independent verification, transition-focused SLLs can serve as powerful tools to promote behavioural change at the entity-level, support the reallocation of capital towards climate-aligned outcomes, and enhance accountability across sectors that fall outside the traditional "green" classification.

[19] Under Section 3.B.I.a) of the Guidance on Sustainability-Linked Loan Principles (March 2025), it states that "SLLs are an important form of specialised financing, which seek to support and encourage borrowers to attain more sustainable business models. In this way they stand apart as a transition tool." It is therefore proposed that transition-themed SLLs would retain the 'SLL label', with market participants having the option to apply an additional 'transition' theme to the SLL label where deemed appropriate.

[20] See the ICMA's Illustrative KPIs Registry for examples of core/secondary KPIs for sustainability-linked instruments.

[21] It is acknowledged that development of an appropriate methodology to calculate Scope 3 emissions associated with certain industry sectors is still under way, and Scope 3 emissions may need to be estimated on a 'best-efforts' basis in the interim.

Part 3.2: Use of proceeds financing of assets/projects

To date, the global sustainable finance market has lacked a dedicated use of proceeds instrument to support transition activities that fall outside the traditional "green" category. While green loans are well-established for financing projects that are already low-carbon or environmentally beneficial, no globally equivalent labelled framework has existed to channel capital toward the critical investments needed to decarbonise high-emitting or hard-to-abate sectors.

Transition loans aim to address this gap by enabling the financing of specific assets/projects, operations, or investments that are aligned with credible pathways to net-zero emissions. Each asset/project financed should contribute measurably and demonstrably to the borrower's overall climate transition, acting as a decarbonisation lever that enables the implementation of the transition strategy.

Unlike green loans[22], which fund activities that are already low-carbon or environmentally beneficial, transition loans support the necessary, and often complex, investments that enable a shift from a high-emissions baseline toward longer-term net-zero compatibility. This may include CapEx, R&D, early decommissioning or replacement of high emission assets or activities, and other activities critical to enabling more sustainable business models.

To formalise and guide this emerging category, the Exposure Draft of the Transition Loan Principles (Part 3.2.1) is set out below. Developed by the APLMA, LMA and LSTA, this voluntary, cross-jurisdictional framework is intended to evolve with market input as it is put to use over the next 6 to 12 months, ultimately leading to the publication of a recommended final version and supporting guidance.

Part 3.2.1 Transition loan principles - exposure draft

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.

[22] See APLMA, LMA and LSTA's Green Loan Principles, March 2025.

Introduction

The Transition Loan Principles *(TLP)* provide a practical framework to guide market participants in identifying and assessing the defining characteristics of a credible use of proceeds focused transition loan. This framework builds on existing tools in the transition finance space and encourages the use of sectoral pathways, taxonomies, technology roadmaps, and relevant policy frameworks consistent with the goals of the Paris Agreement, both at the asset/project and entity-level.

Projects financed under this label should contribute meaningfully to climate change mitigation and support the borrower's overarching transition strategy. Recognising that many economic activities are not yet aligned with the Paris Agreement, the aim of the TLP is to facilitate lending to enable the transition of activities to become compatible with the Paris Agreement goals. Accordingly, project impacts should be compatible with global efforts to reduce GHG emissions, while allowing for regional and sectoral differences in starting points and capacities.

Projects shall be underpinned by credible near- or long-term GHG emissions reduction potential and embedded within a broader strategic approach to decarbonisation. A robust governance structure, supported by recognised methodologies and metrics, is essential for tracking progress and reinforcing accountability. Flexibility and context sensitivity are therefore integral, with an emphasis on transparency and intent.

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 but do not meet the categories for eligibility for Green Projects, as defined in the Green Loan Principles.

Transition Loan Principles – Core Components[23]

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.

01 Entity-Level Transition Strategy

Borrower presentation of a credible entity-level transition strategy is a core component of transition loans. It provides the necessary context to ensure that individual transition projects contribute meaningfully to the borrower's overarching GHG emission reduction strategy and are not pursued in isolation.

A credible entity-level transition strategy should be evidenced through:

- a published or actively developed transition plan or planning process (see Parts 2.1 and 2.3); and/or
- a robust set of indicators showing alignment with recognised transition frameworks and science-based decarbonisation pathways (see Parts 2.2 and 2.3).

02 Use of Proceeds

A fundamental determinant of a transition loan is the use of loan proceeds for an eligible transition project *(Transition Project)*, which shall be appropriately described in the finance documents and, where applicable, marketing materials for the financing and/or a transition loan framework[24].

"Transition Projects" include assets, investments and other related and supporting capital and/or operating expenditures such as R&D that are not yet aligned with the goals of the Paris Agreement but contribute meaningfully to the decarbonisation of the real economy. These projects are on a credible pathway toward net-zero GHG emissions with quantifiable, substantial, and clear reductions of GHG emissions within a specific timeframe.

Transition loans may finance full Transition Projects or individual components of Transition Projects, such as CapEx, OpEx, R&D, and/or phase-out related expenditures, that are integral to a broader decarbonisation strategy.

Eligible Transition Projects may include those in categories recognised in credible, national, regional or market-based taxonomies (see non-exhaustive list in Appendix 3).

[23] These Core Components seek to align, as far as possible, with those of the Green and Social Loan Principles, to promote consistency in the expectations and application of sustainability-focused, use of proceeds labelled structures.

[24] May also be referred to as/be contained within a Sustainability Loan Framework, or form part of a broader Sustainability Debt Framework, applicable across multiple debt products.

03 Project Evaluation and Selection

To support the integrity and transparency of transition finance, borrowers shall clearly communicate to lenders the rationale and governance behind the selection of eligible Transition Projects. This includes:

i. Project Eligibility and Alignment with Sectoral Pathways[25] or Taxonomies

Borrowers shall describe the internal process used to assess and determine project eligibility as a credible transition project. This may be evidenced by demonstrating how the selected project(s):

- align with relevant categories under regional, national, or market-based taxonomies and roadmaps (see Appendix 3); and/or
- correspond to recognised sectoral decarbonisation pathways or performance benchmarks; and
- support the borrower's overarching climate transition strategy and GHG reduction targets (see Part 2).

Where applicable, and to substantiate eligibility, borrowers should reference recognised sectoral decarbonisation pathways (e.g. IEA NZE scenario, APS scenario or IPCC 1.5°C or 2.0°C scenarios), as well as relevant taxonomies, national climate policy frameworks, science-based targets, and/or government-backed industry roadmaps[26]. These resources provide structured benchmarks for GHG emissions reduction and broader sustainability goals within specific sectors.

In jurisdictions where formal taxonomies or transition roadmaps exist, alignment with these is encouraged provided they are compatible with the goals of the Paris Agreement. Similarly, sector-specific targets set by official industry platforms may also support credibility.

Where the borrower has a transition plan, the project's consistency with that plan, as well as its material contribution to the plan's implementation, should be assessed. Where a transition plan is not yet in place, the evaluation should focus on how the project aligns with decarbonisation indicators in the borrower's transition strategy (see Part 2.2).

Lenders should recognise that progress toward decarbonisation will not follow a uniform path across all geographies and sectors. In particular, hard-to-abate industries, SMEs and EMDEs may require longer lead times and alternative, non-linear transition pathways. To support inclusive access to transition finance, pragmatic, regionally appropriate trajectories should be accepted, so long as they are transparent, risk-managed, and contribute meaningfully to the decarbonisation of the real economy, following a credible pathway toward net-zero GHG emissions.

[25] See ICMA's Methodologies Registry which provides a non-exhaustive, yet comprehensive list of available tools, methods, scenarios, and initiatives dedicated to the validation of specific emission reduction trajectories/pathways.

[26] For example, the decarbonisation roadmaps developed by the Ministry of Environment, Trade and Industry (METI) in Japan for the sectors of iron and steel, chemicals, power, gas, oil, pulp and paper, cement, and automobile: Transition Finance / METI Ministry of Economy, Trade and Industry.

ii. Absence of low carbon alternatives available in the market

The transition project should prioritise low carbon alternatives that are technically and/or economically feasible within the local market and sector. This ensures that projects remain aligned with sectoral decarbonisation objectives while accounting for regional differences in technology availability, infrastructure, and capacity.

Where relevant, investment in R&D of emerging low-emission technologies may also be considered, particularly when such efforts support the broader sectoral transition and accelerate decarbonisation pathways.

iii. Environmental and Social Risk Management

The borrower shall provide an overview of how environmental and social *(E&S)* risks and externalities associated with the proposed transition project are identified, assessed, and managed. This should include demonstrating that the project does not materially harm other environmental or social objectives, in line with broader principles of sustainable development and the integrity of transition finance.

While the primary aim of transition finance is to support decarbonisation, such efforts must not come at the cost of significant negative impacts on other sustainability goals. Project planning and implementation should include, but not be limited to, considerations that:

- avoid significant harm to biodiversity, ecosystems, land and water use, and pollution levels;
- consider social equity and just transition principles, including respect for labour rights, community health, inclusiveness, and energy access/security; and
- ensure that any environmental and/or social trade-offs, particularly in sensitive sectors such as extractives, infrastructure, or land-use, are transparently assessed, minimised, and, where necessary, mitigated.

Therefore, in assessing a project's eligibility for transition finance, parties should consider not only its contribution to climate mitigation, but also whether it avoids materially compromising other E&S objectives. An integrated approach, one that balances environmental, social, and climate outcomes, is essential to building a just, inclusive, and environmentally sound transition to a net-zero economy.

iv. Carbon Lock-in Risk Assessment

"Carbon lock-in occurs when fossil fuel infrastructure or assets (existing or new) continue to be used, despite the possibility of substituting them with low-emission alternatives, delaying or preventing the transition to near-zero or zero-emission alternatives."[27] Where proceeds are used to finance such infrastructure or assets (existing or new), the borrower should assess whether the proposed project risks locking in carbon-intensive practices that may delay or undermine long-term decarbonisation goals, in the context of its own transition strategy and broader sectoral decarbonisation pathways.

[27] OECD 2023, Mechanisms to Prevent Carbon Lock-in in Transition Finance, https://www.oecd.org/en/publications/mechanisms-to-prevent-carbon-lock-in-in-transition-finance_d5c49358-en.html

Interim investments in lower-emission alternatives may be necessary, particularly in hard-to-abate sectors and/or high-emitting sectors or EMDEs or due to current technological constraints. However, borrowers should demonstrate that such investments are:

- time-bound, with defined sunset clauses or phase-out plans;
- aligned with credible transition pathways; and
- justified by regional, technological or economic constraints.

The carbon lock-in risk assessment may also consider, where relevant, the project's lifetime; utilisation rates, emissions trajectory and cumulative emissions; displaceability and reversibility (e.g., retrofit, repurposing, or repowering potential); readiness for future integration of lower-carbon feedstocks or end-use transition; adoption of best-available technologies or practices; and, where feasible, monitoring of end-use emissions.

Ultimately, borrowers should demonstrate that financed activities support, rather than delay, the pathway to net zero emissions and avoid long-term structural barriers to decarbonisation.

04 Management of Proceeds

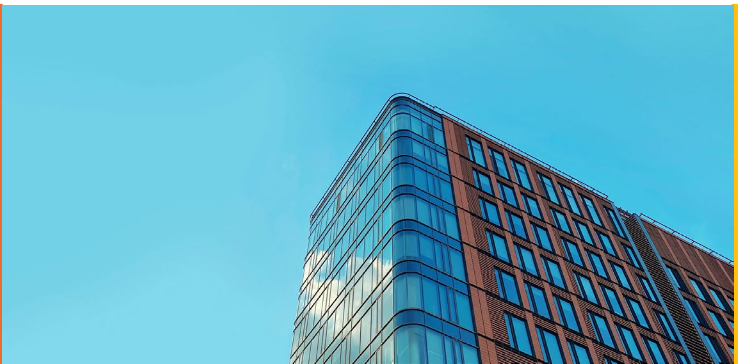
The net proceeds of a transition loan, or an amount equal to these net proceeds, shall be credited to a dedicated account or otherwise tracked by the borrower in an appropriate manner, so as to maintain transparency and promote the integrity of the product.

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

05 Reporting

The transformational nature of transition finance necessitates periodic reporting on achieved/expected impacts and climate gains to ensure transparency, demonstrate progress and maintain accountability.

To support this, 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.



Such reporting 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.

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 especially important in communicating the expected and actual impacts of projects. The TLP recommend the use of qualitative indicators and, where possible, quantitative metrics (e.g. GHG emissions reductions), along with disclosure of key underlying methodologies and assumptions used to determine them.

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

Review

Where appropriate, borrowers should appoint an external review provider(s) to assess the alignment of their transition loan, finance framework, or Transition Project(s) with these TLP and eligibility criteria, particularly where the borrower lacks the internal expertise or resources to make such determinations.

Wherever possible, borrowers should draw on existing reporting and disclosure materials to support this assessment, ensuring consistency, efficiency, and transparency in communicating progress under the transition loan.

Where appropriate, external review is encouraged at both the pre-transaction stage (to assess alignment at the asset/project and/or entity-level) and, where relevant, at the post-transaction stage, to confirm that the Transition Project continues to meet the eligibility criteria and remains consistent with the borrower's overarching transition strategy.

Appendix 1

Non-exhaustive list of existing transition finance frameworks

This appendix provides a non-exhaustive list of high-level frameworks, principles, and official guidance documents that define, structure, or enable transition finance across jurisdictions and sectors.

- Asia Transition Finance (ATF) Study Group (2022). Asia Transition Finance Guidelines, September 2022.
- Climate Bonds Initiative (CBI) (2022) Transition Finance for Transforming Companies: Tools to assess companies transitions and their SLB, September 2022.
- European Commission (2023). Commission recommendation on facilitating finance for the transition to a sustainable economy, June 2023.
- Financial Services Agency; Ministry of Economy, Trade and Industry; and Ministry of the Environment, Japan (2021), Basic Guidelines on Climate Transition Finance, May 2021.
- G20 Sustainable Finance Working Group (2022), 2022 G20 Sustainable Finance Report, October 2022.
- Glasgow Financial Alliance for Net Zero (GFANZ) (2022), Expectations for Real-economy Transition Plans, September 2022.
- IIGCC (2024), Net Zero Investment Framework 2.0, June 2024.
- International Capital Market Association (2023), Climate Transition Finance Handbook: Guidance for Issuers, June 2023.
- Net Zero Banking Alliance (2022), NZBA Transition Finance Guide, October 2022.
- OECD (2022), OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans, 2022.
- The ASEAN Capital Markets Forum (2024), ASEAN Transition Finance Guidance Version 2, October 2024.
- The United States Department of the Treasury (2023), Principles for Net-Zero Financing & Investment, September 2023.
- Transition Finance Council (2025), Sector Transition Plans: The Finance Playbook, September 2025.
- Transition Finance Market Review (2024), Scaling Transition Finance: Findings of the Transition Finance Market Review, June 2024
- Transition Finance Market Review (2024), Scaling Transition Finance: Findings of the UK Transition Finance Market Review, October 2024.
- Transition Plan Taskforce (2023), Transition Plan Taskforce Disclosure Framework, October 2023.

Appendix 2

Non-exhaustive list of existing guidance for robust and credible transition plans

This appendix lists technical guidance, standards, and tools for assessing, preparing, or evaluating entity climate transition plans.

- AFME (2024), Climate transition plans: current and emerging frameworks for the European financial services sector | AFME, July 2024.
- Assessing Transition Plan Collective (2024), Assessing the credibility of a company's transition plan: framework and guidance, September 2024.
- CDP (2024), CDP Technical Note on Climate Transition Plans, August 2024
- Climate Bonds Initiative (2023), CBI Guidance to Assess Transition Plans, September 2023.
- Climate Bonds Initiative (2024), Navigating Corporate Transitions: A tool for financial institutions to assess and categorise corporates by their transition credibility and maturity, May 2024.
- EFRAG (2024), Implementation Guidance Transition Plan for Climate Change Mitigation, August 2024.
- EFRAG (2025), European Sustainability Reporting Standards (ESRS E1: Climate Change), July 2025.
- EU Platform on Sustainable Finance (2025), Building trust in transition: core elements for assessing corporate transition plans, January 2025.
- European Bank for Reconstruction and Development (2024), Methodology to determine the Paris Agreement alignment of EBRD Investments, March 2024.
- GFANZ (various dates), GFANZ transition plan publications.
- Hong Kong Monetary Authority (2024), Good Practices on Transition Planning, December 2024.
- IEA (Various Reports).
- IFRS Sustainability (2025), Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2, June 2025.
- IFRS Sustainability Disclosure Standards (2023 Issued), (IFRS S1 General Requirements for Disclosure of Sustainability-related Financing Information 2023 and IFRS S2 Climate-related Disclosures 2023).
- International Capital Market Association (2023), Climate Transition Finance Handbook, June 2023.
- International Transition Plan Network (various dates), Transition Plan Taskforce publications, 2024.
- IOSCO (2024), Report on Transition Plans, November 2024.
- METI (various dates), METI Technology Roadmap for "Transition Finance", 2023.
- Science Based Targets (various dates), SBTi initiative, 2025.
- The Assessing Transition Plans Collective (2024), Assessing the credibility of a company's transition plan: framework and guidance, September 2024.
- WBCSD (2025), A practical guide on transition plan dependencies, September 2025.

Appendix 3

Non-exhaustive list of existing taxonomies, roadmaps, and market guidance covering transition activities

This appendix includes technical classification systems, roadmaps, and market tools used to assess the alignment of specific economic activities or sectors with credible net-zero pathways.

- ASEAN Taxonomy Board (2024) ASEAN Taxonomy for Sustainable Finance – version 3 (Plus Standard, Amber Tier 2), 20 December 2024.
- Australian Sustainable Finance Institute (2025), Australian Sustainable Finance Taxonomy, June 2025.
- China's Catalogue of Green Finance Supported Projects (2025 Edition).
- Climate Bonds Initiative (2025), The Climate Bonds Initiative Sector Criteria.
- Climate Bonds Initiative (2021), The Climate Bonds Taxonomy, September 2021
- European Union Lex (2020), EU taxonomy for sustainable activities, June 2020.
- Hong Kong Monetary Authority (2024), The Hong Kong Taxonomy for Sustainable Finance, May 2024.
- Hong Kong Monetary Authority (2025), Prototype of Hong Kong Taxonomy for Sustainable Finance (Phase 2A), September 2025.
- IEA (2023 Update), IEA Net Zero Roadmap: A Global Pathway to Keep the 1.5^{0}C Goal in Reach, January 2023.
- IEA (2023), IEA Energy Technology Perspectives, January 2023.
- METI (2021-2023), Japan Sector-Specific Technology Roadmaps
- Monetary Authority of Singapore (2023), Singapore-Asia Taxonomy for Sustainable Finance – 2023 Edition, December 2023.
- National Treasury Republic of South Africa (2022), South African Green Finance Taxonomy, March 2022.
- Transition Pathway Initiative (2022), TPI Sectoral Decarbonisation Pathways, February 2022.