IIGCC

From concept to capital flows: The investor perspective on transition finance

Contents

About this paper 3

Key messages 4

Section 1. Why is transition finance needed 5

Section 2. Different types of transition finance exist, but they need to be classified to be useful to investors 8

Section 3: Consistent, fundamental principles that exist in all cases of transition finance 11

Next steps 14

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About this paper

Many investors have articulated support for a concept of transition finance that promotes capital allocation and management of assets in line with the transition to a low carbon economy. But at present, the lack of a robust and consistent definition is inhibiting this capital flow.

This position paper seeks to outline the investor perspective on the different types of transition finance that can exist, how they can be distinguished, and what is needed to give confidence that an investment can credibly be understood as 'transition finance'. The paper does not seek to establish specific definitions or guidance although this may be explored in future work.

Navigation

- **Section 1** covers the need for a robust conceptualisation of the term 'transition finance' and sets out initial investor perspectives on what it does and does not constitute
- **Section 2** outlines a number of examples of the different types of transition finance that investors have encountered and then establishes several classifications by which they might need to be distinguished
- **Section 3** outlines the common principles that underpin robust, credible examples of transition finance, i.e. what investors need in order to have confidence that an investment can credibly be understood as 'transition finance. This section also identifies the next steps for this work.

Preparation

The position paper reflects discussions held within IIGCC membership including a dedicated Transition Finance working group and an all-member consultation which ran throughout July and August 2024.

Acknowledgements

The development of the position paper has been led by Ella Sexton at IIGCC with valuable contributions from the wider team.

Members' contributions were invaluable in shaping the views expressed herein. However, it is important to note that while the paper seeks to identify areas of consensus on this complex topic, there was expected divergence in some views. It follows that the perspectives contained herein do not unilaterally represent the views of IIGCC members nor its Transition Finance Working Group.

IIGCC's Transition Finance Working Group is chaired by Faith Ward, Chief Responsible Investment Officer, Brunel Pension Partnership. Participants who gave their time to join working group discussions included Argi Sampedro (Neuberger Berman), Chandra Gopinathan, Charles Stott, Celeste Renaud, Carlota Garcia-Manas and Bixuan Xu (all Royal London Asset Management), Clément Bultheel (AXA Investment Managers), Connor Murphy (WTW), Daisy Streatfeild (Ninety One), Emma Henningsson (AP7), Jorg Soens, (Insight Investment), Julia French (Local Pensions Partnership Investments), Laura Hillis (Church of England Pensions Board), NN Group, Pauline Vaskou (Aegon UK), Roger Lewis (Downing LLP), Samuel Mary (PIMCO), Shahbano Soomro (Impax Asset Management) Sophie Brodie (Fidelity international), and Chandra Gopinathan.

Key messages

1 Investors need a robust concept of transition finance to deliver climate objectives and avert greenwashing

Huge volumes of capital are required to support both the decarbonisation of emission intensive industries and the scale up of climate solutions.

Within this broader alignment of capital flows, the concept of 'transition finance' helps to articulate where dedicated capital or influence from an investor or lender enables an asset to transition. Investment that develops, scales and deploys the climate solutions that provide low-carbon alternatives for high-emitting sectors could also fall under the transition finance banner given their role in enabling the transition of those sectors.

But a clear definition of this concept is needed, to enable the distinction of:

- Transition finance, where the investment is catalysing the transition of the asset, for example through provision of ringfenced finance for a transition activity or engagement on a specific transition outcome, underpinned by a robust stewardship model.
- Broader sustainable finance provided to assets that are transitioning or already aligned with net zero, but where this is not catalysed or directly supported by the investment.
- Investments that are neither of the above – where the investment is not made with the aim of supporting the asset to transition, and neither does the asset itself intend to transition.

Robust definitions would help to make the specific objectives of these different types of investments clear to their stakeholders. This paper does not look to impose a standard but to support the development of regulation where this is useful for helping transition finance to flow.

2 All instances of transition finance involve an intentional transition objective and an accountability mechanism to deliver it

Intentionality from the investor and accountability for delivery of the intended objective are critical for something to be considered 'transition finance'. Without these principles, investors cannot have the confidence that they have allocated capital to deliver the transition. Practical demonstration of these principles varies by asset class and instrument – in some cases it is written into an investment thesis, and in others it may be a clear engagement objective that tracks certain key performance indicators (KPIs).

This contrast is particularly clear between:

- General-purpose transition investments, where funds are not ringfenced but engagement towards a transition activity is applied on the basis of the influence the investor has over the asset
- Specific-purpose transition investments, where proceeds are used to deliver a certain transition activity or outcome

Given these practical differences, operationalising transition finance as a mainstream concept will require work to standardise what intentionality and accountability looks like in different asset classes.

3 Transition finance types should be classified according to practical distinctions by asset class, instrument and asset characteristics to reflect likely outcomes

This concept is currently used interchangeably by different actors to denote a wide range of financial activities, each with different (and sometimes negligible or negative) impacts on the pace and scale of the transition. Many of these instances deliver a transition outcome, but what they can ultimately achieve differs hugely according to asset class and instrument. Capital requirements for the transition also vary depending on asset characteristics like sector and geography. Investors therefore need this classification to understand whether they are directing appropriate volumes of finance to where it is needed, if that is their objective.

Section 1. Why is transition finance needed

To achieve a global net zero economy, it is essential that high-emitting sectors and emissions-intensive activities transform to function in a lower-carbon way. This also relies on scaling up the climate solutions that enable these sectors to decarbonise.

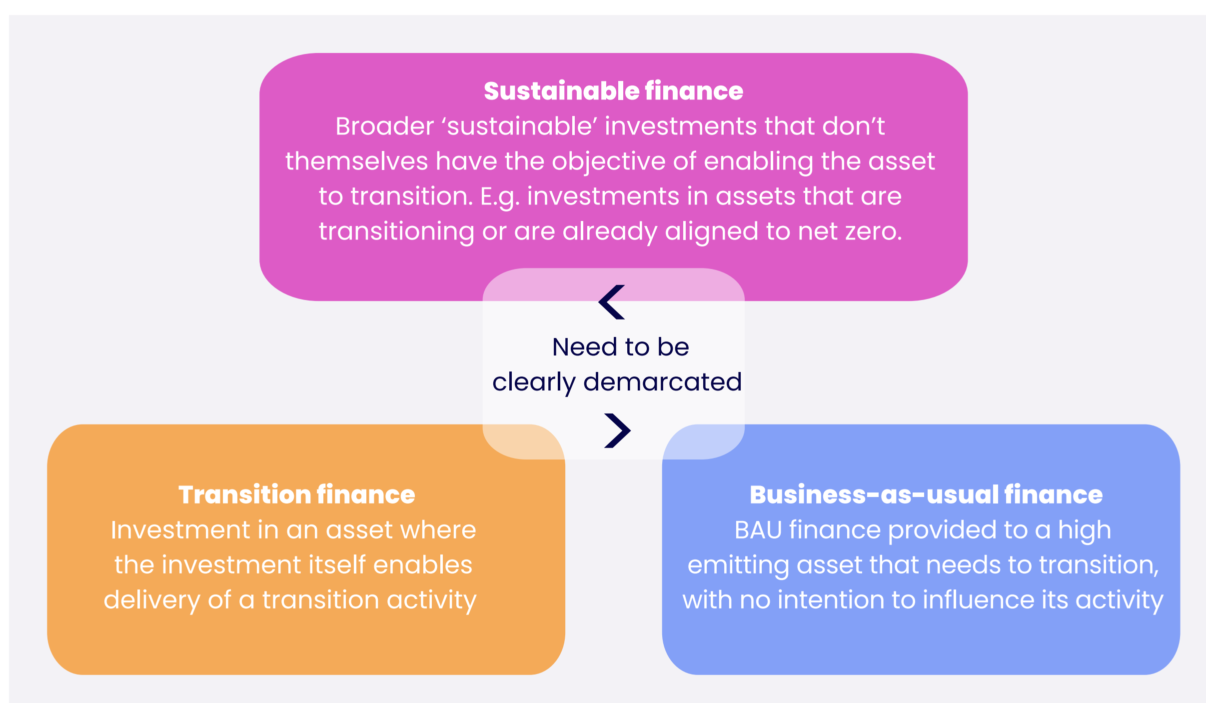
A vast amount of capital is needed to achieve these changes. Many investors are looking to intentionally support assets to transition and need to be equipped to direct finance to where it is needed. But it can be hard to distinguish investments that have a specific objective to support the transition from those providing business-as-usual financing, or indeed from broader sustainable investing.

Clarity is particularly important in distinguishing investments that directly help a high emitting asset to transition[1], from business-as-usual investments into those high emitting assets. These investment objectives should not be confused: their distinction needs to be clear to enable accurate and efficient capital allocation and management of assets in line with a transition mandate or objective, where one exists.

Separately, broader sustainable investments in assets that are independently transitioning or aligned to net zero are important and clearly play a fundamental role in aligning capital flows with a net zero economy. Yet, they have a different objective, and different characteristics, to 'transition finance' investments.

Clarification is needed on what transition finance means, so that stakeholders (e.g. beneficiaries or consumers) can understand and distinguish these different types of investments based on their objectives and characteristics.

Figure 1: Demarcating transition finance, broader sustainable finance, and business-as-usual finance. This diagram outlines areas for conceptual delineation but does not propose specific definitions.



1 See Carbon Tracker, 'Where transition finance needs to go'

The transition to a global net zero economy

Climate change poses risks to financial markets[2], so intrinsically forms a part of the normal duty of investors to act in the current and future interests of the beneficiaries of their investments[3]. Though the financial risks associated with climate change are broadly recognised, the exact timing and severity of how they will affect different markets is incredibly complex to predict and often underestimated[4]. In recognition of the threat climate change poses, most countries have committed to transition their economies in line with what science says is needed to avert the worst impacts of climate change, by limiting the global average temperature increase to below 1.5 degrees above pre-industrial levels[5].

The pace and scale of implementation looks different in each country, with progress already being made. But currently, it is not sufficient to avert the risks that climate change poses to financial markets.

Many investors have similarly set an objective to transition their portfolios in line with net zero towards mitigation of the risk posed by climate change. But a key obstacle is emerging, with finance not flowing in sufficient volumes to the high emitting assets that need capital to transition[6]. Directing finance to these assets for the purpose of helping them to transition isn't necessarily incentivised by 'sustainable' or 'green' fund objectives, as it involves taking on assets that are high emitting. The concept of transition finance has since emerged to describe these cases.

However, at present it is not possible for investors to clearly and systematically differentiate between such transition finance investments; and investments simply made in high-emitting assets that are not transitioning. A grey area between these two categories poses a fundamental mislabelling risk. Guardrails are needed to enable 'transition' finance to flow to these assets.

How the concept of transition finance builds on existing work, including the Net Zero Investment Framework (NZIF)

In many ways the transition finance concept is not a new one. The need for investor climate strategies to deliver a real-economy transition, through the ways in which they allocate capital and manage assets, is at the heart of much of our work and is fundamental to credible approaches to net zero. Particularly relevant is the Net Zero Investment Framework (NZIF), the most widely used guidance for investors setting targets and producing related net zero strategies and transition plans.

Figure 2: Net Zero Investment Framework – asset alignment categories

2 See the Intergovernmental Panel on Climate Change (IPCC)'s 6th Assessment Report, chapter 15 on Investment and Finance

3 See the Recommendations of the Task Force on Climate-related Financial Disclosures

4 See the Emperors New Climate Scenarios

5 See the UNFCCC Paris Agreement and IPCC Special Report on Global Warming of 1.5 °C

6 See the Intergovernmental Panel on Climate Change (IPCC)'s 6th Assessment Report, chapter 15 on Investment and Finance, and The International Energy Agency (IEA)'s report on financing clean energy transitions in EMDEs

The scale of five categories of alignment (Figure 2) established in the NZIF "maturity scale" aims to help investors establish the progress towards net zero being made by their underlying assets, if any. It is primarily used to inform the prioritisation of actions[7] taken to manage climate-related financial risks and opportunities in the portfolio and understand progress towards any climate objectives it might have, for example aligning to net zero by 2050.

NZIF's maturity scale can also be used to support the concept and application of transition finance. Investors can act intentionally to support an asset to progress along this alignment scale either through engagement and voting, or the provision of capital to directly fund its transition. The sector classification and metrics established by NZIF to determine an asset's position on the maturity scale can further be used to distinguish the credibility of its transition strategy and whether it should be a target for transition finance.

This approach was adopted in a paper led by the Climate Bonds Initiative, prepared collaboratively with IIGCC, the Sustainable Markets Initiative and Climate Arc, with feedback from the Glasgow Financial Alliance for Net Zero secretariat and other finance representatives[8]. The concept of transition finance intersects with the maturity scale approach, where an investor acts[9] to intentionally encourage or enable an asset to progress along the scale through a financial instrument that has that specific transition objective, or where an asset seeks finance to help them transition.

One case in which clarity of terms is important is where an asset is progressing along the alignment scale at the necessary[10] – or accelerated – pace. Whilst this is an important part of decarbonising the economy in its own right, if there has been no intentional action from the investor to facilitate that transition specifically through the finance it is providing, it might be better described by different terms. This is explored further in the next section.

IIGCC's work on climate solutions[11] under NZIF also explored the concept of transition finance and identified climate solutions as part of the transition finance umbrella. This was on the basis that, while strictly speaking these activities may not need to "transition" themselves, they are expected to play a vital role in the transition of sectors that are fundamental to accomplishing an economy-wide transition. Capital is needed to achieve this.

Transition finance as a concept is also being explored by policymakers and regulators

Two notable examples of this in the UK include:

- The Transition Finance Market Review (TFMR)[12] being undertaken by the UK government, that seeks to understand how to support companies domestically and abroad to continue to access the capital they need to decarbonise and deliver its net zero ambitions.
- The Sustainable Disclosure Regulation (SDR) proposed by the UK's Financial Conduct Authority (FCA),[13] that identifies the need for different labelling of funds that are comprised of already-sustainable assets versus assets that are transitioning.

7 The range of actions and use per asset class is also outlined in the NZIF

8 See Navigating Corporate Transitions: a tool for financial institutions, page 8

9 This could be through provision of new capital for a specific activity, or establishing clear expectations for a time-bound transition activity to be delivered. This can include where an investor has provided finance to an asset that has no commitment to transition, with the clear objective of transitioning the asset.

10 A 'necessary' pace is outlined by transition pathways and climate scenarios that align with the Paris goals, such as those established by the IPCC and International Energy Agency (IEA). In these scenarios, regional and sectoral differences are identified and typically built into pathways.

11 See IIGCC's Climate Solutions guidance for listed equity and corporate fixed income

12 See the UK's Transition Finance Market Review

13 See the Financial Conduct Authority's Policy Statement PS23/16 on Sustainability Disclosure Requirements (SDR) and investment labels

Section 2. Different types of transition finance exist, but they need to be classified to be useful to investors

The concept of transition finance is currently used interchangeably by different actors to denote a wide range of financial activities. While many of these instances may advance the transition, the scale of what each can ultimately achieve varies hugely in pace and impact.

Differences in practice

Transition finance can be defined by the nature of the finance (i.e. the type of instrument) and by its destination (i.e. the asset).

For example, both of the following instruments could demonstrate an intentional, causal link on a transition outcome that has been catalysed by the investor – but there is clearly a wide spectrum of the magnitude of impact and the extent to which it has been driven by the provision of dedicated transition finance.

- **Instrument example 1:** Instruments with high influence over asset activity, such as a collection of shares that give an investor a majority equity ownership stake, or a bond that has been raised for a specific activity.
- **Instrument example 2:** Instruments with some influence over asset activity, such as stocks in listed equities where robust engagement and stewardship is applied for the specific purpose of a transition activity.

Similarly, each of the following examples involve an activity that forms part of delivering an economy-wide transition, but they contribute in distinct ways.

- **Asset example 1:** Ringfenced investment into a cement production company operating in a jurisdiction with no government incentives for decarbonisation. To be employed for purposes such as practical changes to production plants that might be needed to be able to utilise lower-carbon clinker alternatives, or retrofitting lower-carbon energy sources for heating kilns[13 14]. In this case, the financial instrument can demonstrate a clear, causal link with the cement company being able to transition to a lower-carbon cement production process, going to an asset that has a great need for transition finance due to its sector and region.
- **Asset example 2:** A software services provider raises debt to retrofit offices to be more energy efficient. This is technically delivering a transition outcome that has been directly financed by the debt instrument. However, it is a small-scale effect on one company's emissions and is a lower-scale individual impact than, for example, retrofitting the same company's data centres, which have a higher impact on emissions abatement for the same asset. Therefore, its contribution to the transition needs to be distinguished from examples 1, 3 or 4, even though it is an outcome which must happen at scale across a high number of companies in the sector.
- **Asset example 3:** Investment in a grid operator or developer that is providing flexibility solutions that enable the grid to take on a higher proportion of renewables. Without investment in developing and deploying this technology, we cannot transition from a fossil-fuel based electricity grid and therefore this solution helps to transition the energy sector, which is fundamental to addressing climate change[15]. Despite this, this investment may incur high emissions during its exposure to today's predominantly fossil-fuel based grid – and therefore it cannot be accounted for in the same way as examples 1, 2 or 4.
- **Asset example 4:** A minority stake equity investment in a large, publicly listed company with coal assets, operating in a market that lacks policy incentives to transition, where the investor has an engagement objective for the company to phase-out its coal activities. Use of proceeds investing such as in examples 1 or 2 is unlikely to be able to be deployed at sufficient scale to facilitate the phase-out of the entity's coal assets. Therefore, despite being a general-purpose investment, this type of intentional financing of high-emitting assets operating in challenging jurisdictions has the potential to enable critical transition activities.

14 See Mission Possible Partnership
15 See Williams et. al. (2024) Decarbonisation pathways of the cement production process via hydrogen and oxycombustion
16 See Intergovernmental Panel on Climate Change AR6, the Physical Science Basis

Classification factors

Given the wide variation in instances of transition finance outlined above, it is necessary to distinguish between different types.

The following considerations are likely to affect the extent to which an instrument can be directly linked to the transition:

1 **Financial instrument:** Different financial instruments can have substantially varied levels of influence over an asset, and therefore differing extents to which they can cause a transition outcome in the real economy. The influence mechanism also varies depending on factors such as whether the investment is passive or active; debt or equity; and through primary or secondary markets.

Most forms of transition finance can be classed under two categories. A **general-purpose transition investment** where funds are not ringfenced, but engagement towards a transition activity is applied on the basis of the influence the investor has over the asset. Or a **specific-purpose transition investment** where the use of proceeds of the funds provided are for delivering a certain transition activity or outcome. This is a useful lens through which transition finance could be classified.

For example, a private equity buyout fund can influence asset activity in a different way to an investment in an index fund.

2 **Asset characteristics:** The magnitude of the role an asset plays in achieving global net zero varies substantially by sector and geography. This is reflected in climate scenarios that help to outline the differences in pace, scale and prioritisation of transition activity needed by individual sectors and markets. Similarly, the challenge of transitioning can be much greater for sectors where there is not yet a mature alternative to high emitting technologies; or where technology exists but wide-scale deployment is prohibitively expensive (i.e. hard-to-abate sectors). Dedicated finance that helps to decarbonise emissions-intensive or hard-to-abate sectors can accelerate the transition more than that provided to lower-impact sectors.

The expected pace and scale of transition activity further differs in developed markets versus emerging markets and developing economies (EMDEs). This can include longer lead-times for the phase-out of misaligned assets (e.g. coal-fired power) in developing economies, or faster transition activities (e.g. decarbonisation of the grid) in developed economies. The stark financial gap that needs to be closed to support the transition in EMDEs, and the reality that EMDEs already account for almost 70% of global emissions[17], mean that transition finance needs in these markets can also be greater to achieve global net zero.

For example, finance that enables a multinational steel manufacturer that operates primarily in a market that lacks supportive policies for net zero will have a different impact than finance provided to a small software services company in a supportive jurisdiction.

3 **Climate solutions vs decarbonisation:** Not all transition finance aims to support the decarbonisation of the asset receiving the finance. Finance is also needed to expand climate solutions activities that accelerate decarbonisation beyond their own emissions value chain e.g. technologies that enable a high emitting sector such as energy or industrials to function in an alternative, lower-emissions way. Such activities can have high emissions intensities on paper and therefore an evaluation of their ability to accelerate the transition needs to expand beyond their own value chain.

17 See Bruegal's 'The Economic Case for Climate Finance at Scale'

Relative impact on the transition

As demonstrated in the examples above, different forms of transition finance can have very different levels of impact on the pace at which we achieve net zero. Nevertheless, accurately measuring the size of this contribution and attributing it to a specific action is often difficult. For some specific purpose financing, it may be possible to compare a before and after emissions pathway or climate solutions growth trajectory. However, in most cases it will not be possible to establish a counterfactual or to directly attribute any success as 'additional' to business-as-usual.

Investors' mandates may also limit the forms of transition finance in which they can participate – some may not be able to direct capital towards specific purpose investments. Similarly, some may seek investments that have a 'high impact' on the transition. But this cannot be distinguished without information on the mechanism by which the finance is flowing and the asset that is its destination.

Just transition considerations can also affect whether a transition finance instrument is able to achieve its intended outcome

For example, early retirement of a coal-fired power plant could create local social challenges such as loss of jobs, livelihoods, and other contributions to the local economy. Unless the company or authority in charge of the early retirement process is able to provide an alternative solution to these challenges, such as provision of new jobs supported by an effective reskilling programme, it will likely be very challenging to realise the retirement of the asset due to a lack of political and social buy-in.

Similarly, the entity responsible will need to consider factors such as whether alternative energy supply is available, and whether this will be delivered at comparable cost to the same households, in order to gain this buy-in. This is a key instance in which climate objectives need to consider other Environmental, Social and Governance (ESG) factors in order to be delivered in reality.

Section 3: Consistent, fundamental principles that exist in all cases of transition finance

The range of instruments and assets that can be seen as transition finance may differ in practical characteristics, but all are classified as such by having a specific transition objective and delivering on it. This leads to two key principles that could give investors the confidence to invest in this space.

Principles underpinning transition finance

1. **Intentionality:** the finance has a clear objective to deliver transition outcomes.
2. **Accountability:** there is a mechanism in place to ensure that outcome is delivered.

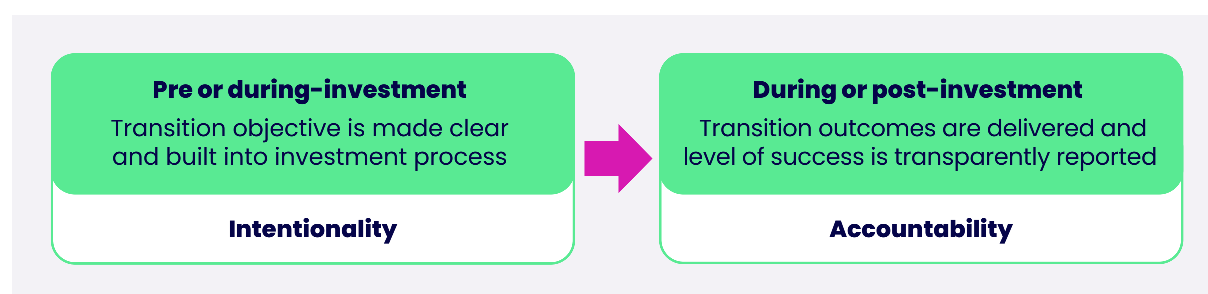


Table 1 visualises how these principles could be used in practice to inform differentiation between sustainable finance, transition finance and business-as-usual finance that does not have a sustainability objective. Please note this table is provided for illustrative purposes only and this paper does not intend to draw clear definitional lines at this stage.

Table 1: Illustrative distinctions between transition finance, sustainable finance and business-as-usual finance based on the existence of a transition objective (intentionality) at the investor versus the asset level, and the presence of an accountability mechanism to deliver it.

Investor intentionality	Asset intentionality	Accountability mechanism in place	
Y	Y	Y	Transition Finance
Y	N	Y	Transition Finance
N	Y	Y	Sustainable Finance
Y	N	N	BAU
N	Y	N	BAU
N	N	N	BAU

Critically, the ways in which these principles can be demonstrated differs by asset class.

For example, in listed equities, intentionality to provide transition finance could be demonstrated by the investor setting clear, time-bound expectations for the asset's transition and then enacting its engagement plan. Accountability could be demonstrated through setting time bound engagement objectives, tracking of KPIs against time horizons, and escalation, ultimately supported by investment decisions, where they are not delivered.

Alternatively, in the example of a use-of-proceeds bond with funds ringfenced for a transition activity, the intentionality is clear though the investors participation in this bond as opposed to general debt. The accountability mechanism lies in the contractual requirement for the debt to be utilised for its ringfenced purpose.

Fundamentally, without a clear demonstration of intentionality to transition and accountability that it will be delivered, investment in a high-emitting asset cannot be considered transition finance.

Transition finance should be consistent with the Paris Agreement and climate science

The application and definition of transition finance should be consistent with the pace and scale of change determined by climate science. This requires large and rapid shifts in emissions intensive sections and will dictate the timing and size of capital flows. The precise pace of the change will vary by sector and geography of the asset.

According to this science, some sectors need to transition sooner (e.g. electricity) in order to accommodate for sectors that will likely require more time to transition due to the nascency of low-carbon alternatives. In these cases, upfront capital needs are typically significant in the near-term to enable the development and scaling up of these low carbon alternatives. This sectoral perspective is very important in determining whether transition finance is being provided in line with what science says is needed to achieve the Paris goals.

In line with the Paris Agreement's recognition of common but differentiated responsibilities and the fair share principle[18], differentiated expectations for the nature and pace of transition should apply for assets within emerging markets and developing economies (EMDEs) compared to those in developed economies. Many EMDEs are expected to reach peak emissions and decarbonise at later dates; in contrast, certain sectors in developed economies are expected to reach net zero significantly faster than 2050.

The role of transition plans

Most investors see transition plans playing an important role in determining the boundary of what can be credibly considered transition finance, particularly for corporates. This view is consistent with the approach set out by CBI et al[19], which, based on an NZIF-like approach, used a shortlist of five key criteria to determine a company's position on a maturity scale[20]. Broadly speaking, a company should not just have a commitment to reach net zero but be able to set out how it intends to reach it[21].

18 See the Paris Agreement

19 See Navigating Corporate Transitions: a tool for financial institutions, page 8

20 See CBI Navigating Corporate Transitions: a tool for financial institutions, page 6 Figure 2. Key components for assessment were: A) Commitment B) Emissions targets, C) Delivery Strategy D) Governance and E) Performance. These largely overlap with the Listed Equity & Corporate Fixed Income criteria: Ambition, Targets, Disclosure, Decarbonisation plan, Capital allocation alignment and Emissions performance used in NZIF (see page 24).

21 For further discussion of the important components of transition plans, see IIGCC's Investor Expectations of Corporate Transition Plans: From A to Zero

However, there were a few important exceptions and nuances to this perspective that transition plans would be essential for transition finance across all asset classes. Some investors consider that ringfenced investments in a specific transition activity can be justified as transition finance even where the parent entity does not have a credible plan for the entire business (e.g. in asset example 2 on page 9 of this paper). Several also highlighted that the extent of disclosure required to establish credibility would vary according to the size of the company, the impact of its activities and its location. And in many contexts they do not need to be complex and lengthy to be credible.

A minority of investors articulated a more expansive definition of transition finance predicated on active engagement with clearly established KPIs, e.g. securing a board commitment to set a transition plan. From this perspective the potential impact (i.e. taking the necessary prerequisite steps to an actual physical transition activity, such as rolling out a low-carbon retrofit) could justify inclusion within the transition finance concept.

Applying the principles of intentionality and accountability to inform nuanced instances of transition finance

Example 1: Cases where finance provided to companies that don't themselves intend to transition can be 'transition finance'

From the investor perspective, a stated intention to transition by the asset is not always a pre-requisite to transition finance, as long as this intention exists at the investor level and is supported by a deliverable accountability mechanism. Many high emitting assets today do not intend to transition – or are not able to without dedicated finance. Investors with a transition mandate can use their influence to help these assets to transition. For example, if a private markets investor buys out a small fossil fuel-based energy supplier, under the thesis that it could realise more value as a lower-carbon energy provider, and then supports it to enact this business model pivot, this could be regarded as transition finance. An accountability mechanism could be demonstrated in the fund's reporting against its investment thesis.

Alternatively, if the company has been bought out under a thesis that does not include a transition objective, this would be considered business-as-usual financing of a high emitting asset and cannot be categorised (or labelled) as transition finance. The same would apply for an investment in a listed equity where there is no mechanism established for the investor to engage with the asset to transition.

Example 2: Cases where finance provided to assets that are already transitioning may not be 'transition finance'

Where an asset may itself be transitioning at the right pace in line with net zero, but this cannot be linked to action by the investor, there is no demonstration of intentionality. For example, an investment in a listed equity that is demonstrating good progress against a credible transition plan, but where the investor does not intend to engage with the asset on this.

In this case, the finance could genuinely be flowing to a 'transitioning asset' and could have a valid place in certain 'sustainable' or 'green' funds, but it would not be suited to a fund where the investor wishes to intentionally support assets to transition and therefore there is not a strong case to identify this as transition finance.

We intend to explore future work with our investor members to define these nuances in practice.

Next steps

These principles need to be defined in practice for each asset class

Due to these different practicalities in demonstrating that an investment is actually transition finance, there is a need for standardisation in how intentionality and accountability are demonstrated by different types of investments in different types of assets.

Many existing taxonomies, some regulation[22] and standards can help, but work is needed to define if and under what conditions transition finance can exist in each asset class. This may be more straightforward to identify in cases such as use-of-proceeds bonds, but more complex in examples such as index investing. Standardisation in assessing transition finance per asset class is essential to make sure that business-as-usual finance in high-emitting assets is not conflated with dedicated, effective transition investments.

Future work

This position paper identifies a need for further guidance for investors on:

- How to demonstrate intentionality and accountability by asset class
- How to gauge and differentiate between the different levels of impact that specific transition finance flows have in comparison to others, including the nuance between high volume, low impact flows and low volume, high impact flows (outlined in section 2)
- Further exploration of specific instances where transition plans might not be essential for an investment to be considered 'transition finance'

In exploring future work, IIGCC welcomes feedback and discussion with readers of this paper on the ideas set out herein, how future guidance should be shaped, and how to protect against misidentification of transition finance.

22 FCA Sustainability Disclosure Requirements https://www.fca.org.uk/publications/policy-statements/ps23-16-sustainability-disclosure-requirements-investment-labels

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