

Climate Transition Finance Handbook

Guidance for Issuers

June 2023



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Introduction

An issuer's funding activities are a key component of the implementation of its climate transition strategy. Climate transition focuses principally on the credibility of an issuer's Greenhouse Gas (GHG) emissions reduction strategy, commitments, and practices. Significant capital reallocation and additional financing is needed to meet the global objectives enshrined within the [Paris Agreement on Climate Change](#) to keep the average global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C ("science-based" targets). Capital markets have a critical role to play in enabling climate transition by ensuring the efficient flow of financing from investors to issuers wishing to address issues inherent to climate change.

To help facilitate and accelerate the financing flows, this document seeks to provide clear guidance and common expectations on the practices, actions and disclosures to be made available by issuers when raising funds for their climate transition strategy, whether this be in the format of:

1. Use of proceeds instruments, defined as those aligned to the [Green Bond Principles](#) or [Sustainability Bond Guidelines](#); and/or,
2. General purpose sustainability-linked instruments aligned to the [Sustainability-Linked Bond Principles](#).

Given that GHG emission reduction pathways must be tailored to the sector and operating geographies of an issuer, and acknowledging that issuers generally have different starting points and are at different transition stages and on different pathways, this document does not seek to provide definitions or taxonomies of transition projects, noting that there are several efforts¹ in this area underway globally. Rather, this document clarifies the issuer-level practices, actions and disclosures which are recommended to credibly position the issuance of use of proceeds or sustainability-linked instruments to finance the transition, particularly of "hard-to-abate" sectors².

Notably, recommendations are to apply the guidance in this Handbook for the following cases:

1. Green Bond Principles (GBP) or Sustainability Bond Guidelines (SBG) aligned instruments, where the use of proceeds intends to make a meaningful contribution to an issuer's GHG emissions reduction strategy. This can include green projects that will make a direct contribution to an issuer's own GHG emissions trajectory, and/or projects (including social) tied to a "just transition".
2. Sustainability-Linked Bond Principles (SLBP) aligned instruments, where one or more of the KPIs are monitoring GHG emission reduction metrics – either direct results (i.e., absolute/intensity GHG emission metrics) or supportive proxies (i.e., metrics that act as levers to advance GHG emission reduction targets).

In addition, GSS³ issuance from issuers in the "hard-to-abate" sectors would be strengthened through alignment with this Handbook.

The recommended disclosures are based on:

1. the work conducted by the Climate Transition Finance Working Group – under the auspices of the [Executive Committee of the Principles](#). The working group consisted of representatives from more than 130 entities participating in the capital markets⁴.
2. analysis and existing climate change disclosure frameworks developed by relevant industry groups, regulatory bodies and the scientific community regarding climate change mitigation and adaptation. The recommendations in this Handbook leverage these frameworks and articulate their relevance to use of proceeds or sustainability-linked bonds.

¹ See Annex 2 Non-exhaustive list of wider official and market guidance for climate transition themed GSS Bonds.

² Examples of "hard-to-abate" sectors from Anthony Robert Hobley, "Tackling the harder-to-abate sectors: Join the conversation on 7 July," WEF, July 1, 2020; Max Åhman, "Unlocking the 'Hard to Abate' sectors," World Resources Institute; Energy Transitions Commission, "Mission possible: Reaching net-zero carbon emissions from harder-to-abate sectors", November 2018.

³ GSS defined as Green Bond Principles or Sustainability Bond Guidelines aligned instruments, and Sustainability-Linked Bond Principles aligned instruments.

⁴ A series of workshops and market consultations were undertaken in the second half of 2019 and the first half of 2020. This updated Handbook is the result of subsequent surveys and workshops conducted in the second half of 2022 and the first half of 2023.

There are four key elements to these recommendations:

1. Issuer's climate transition strategy and governance;
2. Business model environmental materiality;
3. Climate transition strategy and targets to be 'science-based'; and
4. Implementation transparency.

Disclosure on an issuer's climate transition strategy and governance should be referenced in connection with any applicable GSS bond issuance. Relevant disclosures can be referenced in an issuer's annual reports, sustainability reports, climate transition strategy, statutory filings and/or investor presentations and should be publicly accessible to investors. Best practice is to include this information in a dedicated, public transition plan, which should align to market guidance⁵. Ideally, the disclosures should be referenced in the framework and offering documentation. Concurrently, the recommended independent review, assurance and verifications listed below could be included within a Second Party Opinion (SPO), as part of the offering documentation, and/or provided in the context of an issuer's non-financial disclosures (in particular, the assurance and verification of any relevant data).

Issuers are encouraged to reference the Climate Transition Finance Handbook 2023 and align with the elements contained therein to communicate their GHG emissions reduction strategy. This is especially pertinent to green, sustainability or sustainability-linked instruments designated as "climate transition" bonds (which may take the form of an additional climate transition label, as is the case in certain jurisdictions).

Issuers can refer to the infographic in Annex 1 "Guidance for climate transition-themed GSS Bonds" that illustrates how the guidance from the Climate Transition Finance Handbook 2023 works in conjunction with other guidance from the Principles, and Annex 2 "Non-exhaustive list of wider official and market guidance for climate transition-themed GSS Bonds" that may be used in support of climate transition-themed financial instruments.

⁵ Examples include, but are not limited to, (i) Financing Credible Transitions - A Climate Bonds Initiative Project, (ii) GFANZ "Towards a Global Baseline for Net-zero Transition Planning", (iii) the OECD Guidance on Transition Finance, (iv) [CDP](#) Climate Change Disclosure; and/or (v) the Transition Plan Taskforce ([TPT](#)) Disclosure Framework.

Element 1. Issuer's climate transition strategy and governance

The green, sustainability or sustainability-linked financing should be directed toward enabling an issuer's GHG emissions reduction strategy in alignment with the goals of the Paris Agreement.

Rationale

Climate transition focuses principally on the credibility of an issuer's GHG emissions reduction strategy, commitments, and practices. The climate transition strategy should clearly communicate and provide detailed information on how an issuer intends to adapt its business model over time to reach the goals of the Paris Agreement. In this context, an issuer's ability to identify eligible climate-related expenditures and/or key performance indicators (KPIs) alone will not necessarily equate to a broader strategic intention to address climate change risks and opportunities in the long-term. Establishment of a strategy to address climate change-related issues is a pre-requisite to issuing GSS instruments with "transition" elements. A range of climate change scenario providers operate in the market today⁶ to inform strategy design. The choice of relevant provider, or the decision to design an in-house scenario, are up to an issuer. However, regardless of the source, an issuer's climate transition strategy should be science-based (i.e., guided by the objective of limiting average global temperature increases ideally to 1.5°C and, at the very least, to well below 2°C compared to pre-industrial levels).

Disclosure

Disclosures regarding climate transition strategies may be aligned with recognised reporting frameworks, such as the recommendations of the [Task Force on Climate-Related Financial Disclosures](#) (TCFD) or similar frameworks⁷. These may be made according to the customary practices regarding corporate disclosures, e.g., via annual reporting, dedicated sustainability reporting, a dedicated climate transition strategy, statutory filings and/or investor presentations.

Recommended information and indicators:

- a long-term, science-based target to align with the goals of the Paris Agreement;
- relevant and credible interim science-based targets in the short and medium-term on the trajectory towards

the long-term goal, in line with the relevant regional, sector, or international climate change scenarios;

- disclosure on an issuer's transition plan or climate transition strategy. This should include specific itemisation of the main levers towards GHG emissions reduction, such as a detailed capital expenditure (CapEx) plan and relevant technological implications (i.e., amounts to be spent, what carbon cost is considered for implementing such CapEx programme, operational impacts, regulatory considerations, etc.);
- clear oversight and governance of an issuer's climate transition strategy, including management/board level accountability; and
- evidence of a broader sustainability strategy to mitigate relevant environmental and social externalities, including 'just transition' considerations where appropriate, and contributions to the UN Sustainable Development Goals (UN SDGs).

Independent review, assurance, and verification

Provision of an independent technical review of an issuer's climate transition strategy may support investors in developing a view regarding the strategy's credibility. Such a review should include:

- alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario;
- the credibility of an issuer's climate transition strategy to reach its targets; and
- level/type of independent governance and oversight of an issuer's climate transition strategy (e.g., by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).

⁶ Examples include, but are not limited to, (i) the Network for Greening the Financial System (NGFS) Climate Scenarios (<https://www.ngfs.net/node/294092>) and/or (ii) International Energy Agency (IEA) Global Energy and Climate Model (<https://www.iea.org/reports/global-energy-and-climate-model>).

⁷ For example, sector corporate benchmarking developed by the Institutional Investors Group on Climate Change (IIGCC) (www.iigcc.org), and sector benchmarks and management quality frameworks developed by: (i) the Transition Pathway Initiative (www.transitionpathwayinitiative.org); (ii) Assessing Low Carbon Transition (ACT) initiative (www.actinitiative.org); (iii) the Climate Bonds Initiative (<https://www.climatebonds.net/>); (iv) the publications released by the Glasgow Financial Alliance for Net Zero (GFANZ) - "Towards a Global Baseline for Net-zero Transition Planning" and "Expectations for Real-economy Transition Plans"; and/or (v) the International Sustainability Standards Board (ISSB) Climate-related Disclosures and/or Sustainability Disclosure Standard.

Element 2. Business model environmental materiality

The climate transition strategy should be relevant to the environmentally material parts⁸ of an issuer's business model, taking into account potential future scenarios which may impact current determinations concerning materiality.

Rationale

Climate transition financing should be sought by an issuer to fund GHG emissions reduction of its "core" business activities over time or diversify into new low-carbon business activities. These "core" activities are the main drivers of an issuer's current and future environmental impacts. Climate transition financing is most relevant to and required by those industries with high GHG emissions that face the most complex climate transition and business transformation challenges. A climate transition strategy should address the most material areas of an issuer's activities from an environmental perspective. The trajectory should be science-based and consider an issuer's broader environmental and societal impact, and an issuer should seek to mitigate negative externalities.

Disclosure

Discussion on the materiality of the planned transition trajectory may be included in the disclosures referenced for Element 1 above. Existing market guidance regarding consideration of materiality may be applied in making such disclosure, for example the relevant guidance provided by accounting standards bodies or financial regulators. Where material, Scope 3 emissions should be disclosed.

Recommended information and indicators:

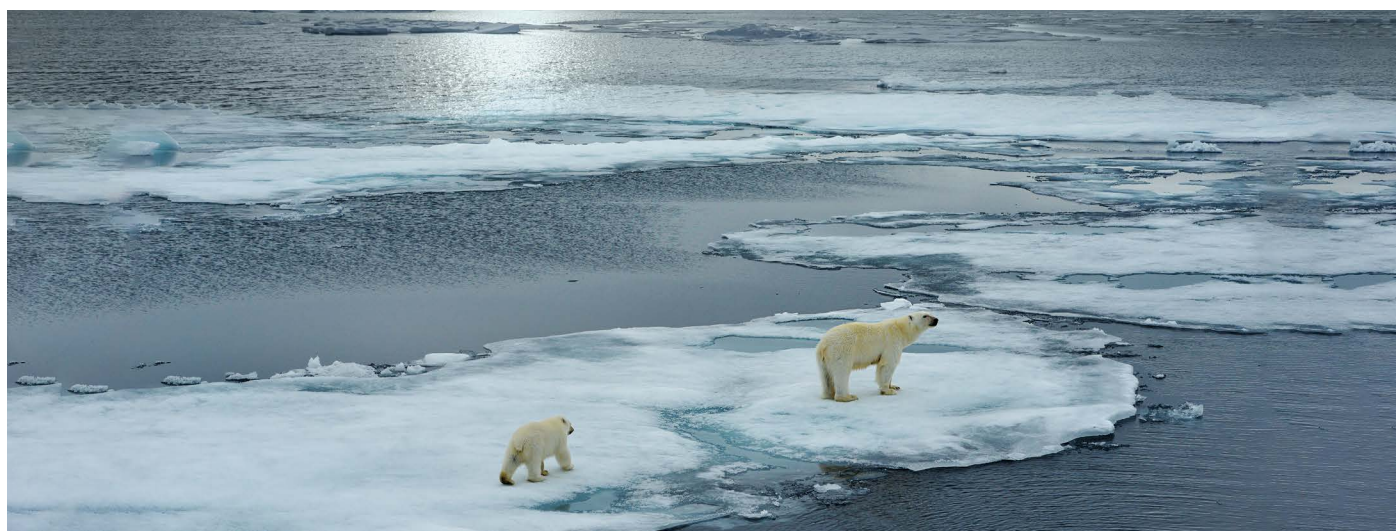
Discussion on the materiality of the planned climate transition strategy may:

- be disclosed in the form of a materiality matrix made publicly available by an issuer or be covered in an issuer's annual reports; and
- address the materiality of climate-related eligible projects and/or KPI(s) on the overall emissions profile of an issuer.

Where Scope 3 emissions are expected to be material but are not yet identified or measured, a timeline for reporting should be disclosed.

Independent review, assurance and verification:

Externally provided comfort around materiality considerations may not be appropriate in all cases; however, an independent external reviewer may provide guidance as required.



⁸ Examples of relevant material scopes by sector can be found in CDP guidance (https://cdn.cdp.net/cdp-production/cms/guidance_docs/pdfs/000/003/504/original/CDP-technical-note-scope-3-relevance-by-sector.pdf).

Element 3. Climate transition strategy and targets to be science-based

An issuer's climate transition strategy should reference science-based targets and transition pathways. There is scientific guidance around the required rate of GHG emission reductions (the "GHG emissions reduction trajectory"⁹) to align the global economy with the goals of the Paris Agreement.

The climate transition strategy should:

- be quantitatively measurable and aligned with the latest available methodology;
- be aligned with, benchmarked, or otherwise referenced to recognised third-party, science-based trajectories, where such trajectories exist; when third-party trajectories are not available, consider industry peer comparison and/or internal methodologies/historical performance;
- be publicly disclosed (ideally in mainstream financial filings), including interim targets; and
- be supported by independent assurance or verification.

Rationale

Science-based targets are targets that are in line with the scale of reductions required to keep the average global temperature increase to ideally 1.5°C, or at the very least to well below 2°C above pre-industrial temperatures¹⁰.

Sustainability performance targets are typically set in accordance with several considerations. These considerations include alignment with the Paris Agreement, market and stakeholder expectations, an issuer's transition stage, track record of achievements to date, and the feasibility of improvement measures, including economic and social constraints/cost-benefit analyses, and the existence of proven techniques or technologies which deliver the anticipated improvements.

As part of a credible climate transition strategy, issuers should reference appropriate benchmark, sector-specific GHG emission reduction trajectories (to the extent they exist). Aligning the business plans with a 1.5°C trajectory will be perceived as most credible; at a minimum, issuers should align to a well below 2°C trajectory. Note that to assist issuers, ICMA has published a Methodologies Registry¹¹, which includes a list of tools to specifically help issuers validate their emission reduction trajectories.



⁹ 'Recognised' trajectories include but are not limited to: (i) 'Climate Positive'; (ii) 'Net Zero 2050'; (iii) Paris Agreement '2-Degrees Scenario'; (iv) '1.5 Degrees Scenario'; and/or (v) associated Transition Pathway Initiative benchmarks.

¹⁰ We note that the Science Based Targets Initiative (SBTi) is a branded verification body for science-based targets. While committing to the SBTi is one way in which issuers could meet the disclosure recommendations included here, Element 3 refers to any target that is based on a Paris Agreement-aligned methodology.

¹¹ The Methodologies Registry is a list of tools to specifically help issuers, investors, or financial intermediaries validate that their emission reduction trajectories/pathways are "science-based", specifically in the context of Element 3 of the Climate Transition Handbook.

Disclosure

There are a number of pre-existing disclosure frameworks¹², which issuers may find helpful when preparing to disclose their climate transition strategies. Such frameworks may also inform the structure of GSS instruments and should reflect the progress and future goals of an issuer's GHG emissions reduction strategy, across the breadth of its carbon footprint (i.e., Scope 1, 2 and 3). It is acknowledged that other similar frameworks may be relevant, and that additional guidance may emerge over time.

Strongly recommended information and indicators

- short, medium, and long-term GHG emission reduction targets aligned with the Paris Agreement;
- baseline year and historic emissions (including absolute emissions, where intensity metrics are the main indicator);
- scenario utilised and methodology applied (e.g., [ACT](#), [SBTi](#), [IEA](#) etc.). When third-party trajectories are not available, industry peer comparison and/or internal methodologies/historical performance;
- GHG emission objectives covering all scopes and most relevant sub-categories (Scopes 1, 2 and 3¹³);
- targets formulated in either intensity or absolute terms, noting, that where intensity targets are used, projections on the change to absolute emissions should also be provided; and
- where applicable, use of carbon capture technology as well as of high-quality and high-integrity carbon credits¹⁴, and their relative contribution to the GHG emissions reduction trajectory in line with best industry practices (e.g., SBTi, VCMI and ICVCM).

Independent review, assurance and verification

A variety of external review providers offer independent review services which set out to review an issuer's proposed quantified "GHG emissions reduction trajectory",¹⁵ and deliver an opinion on the extent to which the proposed trajectory is aligned with reference trajectories noted above. An independent external review of the relevant historical datapoints should also be included. Such independent, expert reviews provide prospective investors with an assessment of whether the proposed climate transition strategy is aligned with the science-based trajectories or relevant regional, sector, or international climate change scenarios.



¹² Recognised guidance relating to external disclosure in this area includes, but is not limited to, (i) Task Force on Climate-Related Financial Disclosures (TCFD), (ii) [Sustainable Accounting Standards Board](#), and/or (iii) Climate Disclosure Project (CDP).

¹³ Note – 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. Focus on most relevant Scope 3 sub-category for issuer, understanding there are 15 categories.

¹⁴ Use of carbon credits for offsetting purposes towards achievement of GHG emission reduction strategies should be kept to a minimum and used to abate residual emissions only. In case of carbon credits use, issuer should disclose the reasoning and need for use along with details on the internal carbon credits procurement policy and associated governance. Recognised guidance related to use of high-quality and high-integrity carbon credits includes the [Voluntary Carbon Market Initiative \(VCMI\)](#) and the [Integrity Council for Voluntary Carbon Markets \(ICVCM\)](#).

¹⁵ In case of an instrument aligned with the Climate Transition elements, it is anticipated that such independent review would be focused on an issuer's overall GHG emission reduction strategy and trajectory, and be accompanied by the recommended external review of the underlying/accompanying debt instrument.

Element 4. Implementation transparency

Market communication regarding the offer of a GSS financing instrument intended to fund an issuer's climate transition strategy should also be transparent, to the extent practicable, on the underlying investment program including capital and operational expenditures (CapEx and OpEx).

Rationale

Issuers, especially those from “hard-to-abate” sectors, are under near-term pressure to announce GHG emission reduction strategies, targets and related commitments. Ultimately, the internal allocation of capital by an issuer to implement its climate transition strategy, alongside the governance that supports such allocation, will be key to achieving its emission reduction goals.

It is recommended that issuers be transparent regarding the planned CapEx and OpEx (including any internal cost of carbon) which will deliver the proposed climate transition strategy. Issuers should report qualitative and quantitative expectations of the climate-related outcomes and impacts that these expenditures are intended to enable.

This may include R&D-related expenditures, where relevant, details of where any expenditure is deemed “beyond-business as usual”, and other relevant information indicating how this program supports implementation of the climate transition strategy, including details of any divestments, governance and process changes.

In addition to green expenditures that contribute to a proposed climate transition strategy, a transition may have positive or negative impacts for workers, communities, and surrounding environments. Therefore, where relevant, issuers should outline how they have incorporated consideration of a “just transition” into their climate transition strategy and may also detail any social expenditures that are considered relevant. This is particularly true regarding the phasing out of some activities and the subsequent decommissioning of related facilities and assets. Support or assistance to the workforce, economic ecosystem, and surrounding natural environment tied to those activities is strongly encouraged (e.g., through retraining of workers, mobility allowance, or pre-retirement schemes etc.).

Disclosure

Annual disclosure of CapEx and OpEx plans (including the relevant assumptions on the carbon cost) and other relevant financial metrics to the extent that they relate to a climate transition strategy may be made in an issuer's annual report, sustainability report, climate strategy, statutory filings, use of proceeds framework, or bond allocation and impact report¹⁶. Disclosure of anticipated CapEx and OpEx line items may take the form of a simple table providing details on specific elements and their connection to the announced strategy, with estimated amounts involved.

Recommended information and indicators

- CapEx roll-out plan consistent with the overall climate transition strategy and climate science and discussion of how it informs CapEx decision-making within the organisation;
- phase-out plan regarding activities/products incompatible with the climate transition strategy (when such activities or products are significantly harmful or display levels of performance inconsistent with science-based GHG emission reduction trajectories);
- green CapEx, for example those referenced under the eligible green project categories in the Green Bond Principles, as a percentage of total CapEx and how the ratio may be expected to evolve over time;
- disclosure on the percentage of assets/revenues/expenditures/divestments aligned to the various levers;
- a qualitative and/or quantitative assessment of the potential locked-in GHG emission from an issuer's key assets and products;
- assumptions on the internal cost of carbon; and
- disclosure on adverse impacts¹⁷ on the workforce, community and surrounding environment, and related strategies used to mitigate those negative impacts.

¹⁶ Issuers should consider the most appropriate methods to make these disclosures and the legal considerations for their respective jurisdictions.

¹⁷ For example, Principal Adverse Impact (PAI) of the Sustainable Finance Disclosure Regulation (SFDR): <https://www.esma.europa.eu/document/joint-esas-final-report-fts-under-sfdr> (from page 60) or adverse impacts mentioned in the UN Guiding Principles (UNGPs).

Independent review, assurance and verification

Specific assurance or verification of how CapEx and OpEx plans support an issuer's climate transition strategy is possible but may be challenging. If specific assurance or verification is not undertaken, an issuer should provide forward-looking analysis of how the CapEx and OpEx plans are expected to support the GHG emission reduction strategy.

Overall, several dimensions can be reviewed:

- the percentage/relative share of green/sustainability* spending out of an issuer's total spending;
- the absolute amount of green/sustainability spending; and/or
- the GHG emission reduction outcomes or benefits achieved or expected to be achieved through such increased green/sustainability spending, and where available, the decreased non-green/significantly harmful spending.

*(*sustainability as related to sustainability bonds, i.e. green and social)*

Appendix: Illustrative example of issuance disclosures

Element 1: Issuer's climate transition strategy and governance

| Use of Proceeds Applicability | | Sustainability-Linked Applicability | |
|---|---|---|--|
| At issuance | Annual reporting | At issuance | Annual reporting |
| Clearly link the issuance to a climate transition strategy in line with best practice. ¹⁸ Identify the estimated qualitative and/or quantitative contribution of eligible projects toward an issuer's GHG emission reduction goals. | Report progress against climate transition strategy; for example: <ul style="list-style-type: none"> Annual GHG emissions reduction Progress on committed GHG emission reduction targets % CapEx allocated to GHG emission reduction projects vs total CapEx | Clearly link the issuance to a climate transition strategy in line with best practice. Identify the estimated qualitative and/or quantitative contribution of KPI(s) and SPT(s) toward an issuer's GHG emission reduction goals. | Report progress against strategic transition plan. Include the actual contribution of the specific KPI(s) and SPT(s) toward an issuer's total GHG emission reduction goals. |

Element 2: Business model environmental materiality

| Use of Proceeds Applicability | | Sustainability-Linked Applicability | |
|--|---|--|--|
| At issuance | Annual reporting | At issuance | Annual reporting |
| Issuers should demonstrate and identify how the eligible projects related to climate change mitigation are either leading to the GHG emissions reduction of an issuer's "core" activities or contributing to a meaningful diversification into new low carbon business activities. | Same as Element 1. Where applicable, the growth of new low-carbon business activities. | Issuers should demonstrate that the selected KPI(s) and SPT(s) apply to a significant majority of an issuer's GHG emissions profile across Scopes 1, 2 and 3. The Illustrative KPIs Registry ¹⁹ highlights example KPIs that meet this criteria for different industries. Disclose the quantum of emissions covered by the defined KPI(s) compared to an issuer's total GHG emissions footprint (Scopes 1, 2 and 3). | Any change to the quantum of the emissions covered by the defined KPI compared to an issuer's total GHG emissions footprint (Scopes 1, 2 and 3). |

¹⁸ As defined by SBTi, Climate Bonds Initiative, CDP, GFANZ or other similarly recognised GHG emission reduction guidance.

¹⁹ The Illustrative KPIs Registry includes high-level recommendations as well as illustrative examples for the selection of Key Performance Indicators (KPIs) for Sustainability-Linked Bonds (SLBs).

Element 3: Climate transition strategy and targets to be science-based

| Use of Proceeds Applicability | | Sustainability-Linked Applicability | |
|---|--|--|---|
| At issuance | Annual reporting | At issuance | Annual reporting |
| <p>Disclose emissions reduction benchmarking, or validation (for example Science Based Targets initiative).</p> <p>Same as Element 2.</p> | <p>Report progress focused on any emissions reduction benchmarking or validation.</p> <p>Same as Elements 1 and 2.</p> | <p>Issuers should demonstrate that the selected KPI(s) and SPT(s) are science-based as outlined in Element 3.</p> <p>Disclose emissions reduction benchmarking or validation.</p> <p>Where GHG intensity KPI(s) are selected, clear guidance on expected forward-looking trajectory of absolute emissions within the boundaries of the KPI(s).</p> | <p>Report progress on science-based emissions reduction.</p> <p>Ongoing guidance on the forward trajectory of absolute emissions.</p> <p>Historic absolute emissions performance.</p> |

Element 4: Implementation transparency

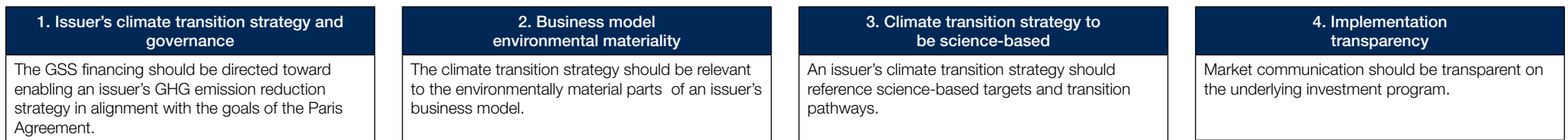
| Use of Proceeds Applicability | | Sustainability-Linked Applicability | |
|---|---|--|--|
| At issuance | Annual reporting | At issuance | Annual reporting |
| <p>The percentage of assets/ revenues/expenditures/ divestments aligned to the various levers outlined in Element 1 above.</p> <p>CapEx roll-out plan consistent with the overall climate transition strategy and climate science.</p> <p>Phase-out plan regarding activities/ products incompatible with the climate transition strategy.</p> <p>Green CapEx as a percentage of total CapEx.</p> <p>Qualitative and/or quantitative assessment of the potential locked-in GHG emissions from an issuer's key assets and products.</p> <p>Assumptions on internal cost of carbon.</p> | <p>Report on allocation to eligible project categories.</p> <p>Include relevant GHG emission reduction performance metrics (in addition to how supporting expenses enable them if appropriate).</p> <p>For Green eligible project categories, the impact on workforce, communities, and other non-environmental benefits can be reported for increased transparency.</p> <p>In the context of Allocation and Impact Reporting, update on whether GHG emissions reduction spending took place as anticipated.</p> <p>Updates on the climate transition plan guidance provided at issuance.</p> | <p>Same as of Use of Proceeds issuances, plus:</p> <p>Issuers should share sample projects and initiatives that are expected to enable progress toward the selected KPI(s) and SPT(s).</p> | <p>Report on the progress of projects and initiatives covered in the climate transition strategy that enabled progress toward the KPI(s) and SPT(s).</p> <p>Updates on the climate transition strategy guidance provided at issuance.</p> <p>Any related impacts on workforce, communities, and other non-environmental benefits can be reported for increased transparency.</p> |

Annex 1: Infographic

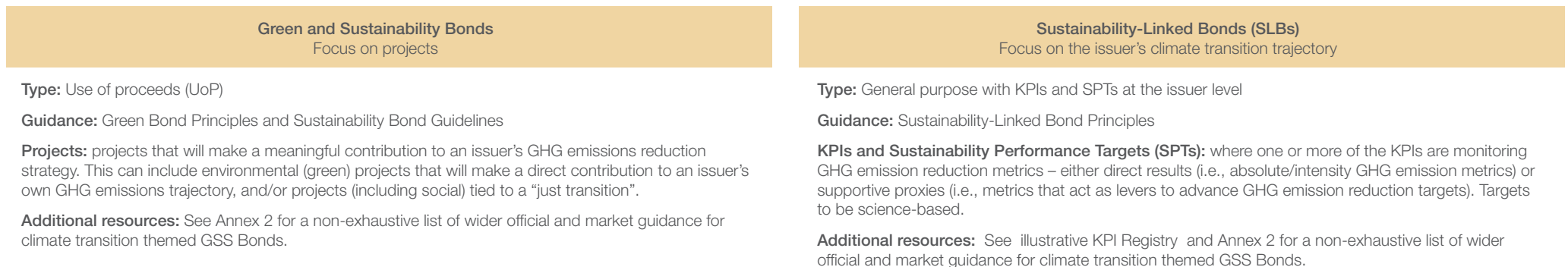
Guidance for climate transition-themed GSS Bonds

- Climate transition focuses principally on the credibility of an issuer's Greenhouse Gas (GHG) emissions reduction strategy, commitments, and practices.
- Bonds aligned with the Green, Sustainability, or Sustainability-Linked Bond Principles (GSS Bonds) to be underpinned by organisation level climate transition strategies and disclosures **aligned with recommendations of the Climate Transition Finance Handbook 2023** (CTFH 2023).
- Notably, GSS issuance from issuers in 'hard-to-abate' sectors would be strengthened through alignment with the CTFH 2023.
- Issuers are encouraged to reference the CTFH 2023 and align with the elements contained therein to communicate their GHG emissions reduction strategy. This is especially pertinent to green, sustainability or sustainability-linked instruments designated as "climate transition" bonds (which may take the form of an additional climate transition label, as is the case in certain jurisdictions).

Key Elements of the Climate Transition Finance Handbook



Sustainable Finance Solutions



Annex 2: Non-exhaustive list of wider official and market guidance for climate transition-themed GSS Bonds

The table below provides a non-exhaustive list of existing taxonomies and official sector guidance that may be used in support of climate transition-themed financial instruments. It is complementary to the [Methodologies Registry](#) released in 2022 which is dedicated purely towards the validation of specific emission reduction trajectories/pathways. There are many tools, methods, scenarios and initiatives available in the market and each play a role and are often tailored towards different audiences. Usually, these resources complement each other and can be combined.

| Official sector taxonomies | |
|----------------------------|--|
| ASEAN | <p>The ASEAN Taxonomy for Sustainable Finance – Version 2 has three different, concurrent angles to climate transition:</p> <ul style="list-style-type: none"> • In the Plus Standard (the classification approach with quantitative criteria) of the ASEAN Taxonomy, multiple tiers of technical screening criteria (TSC) are introduced to promote transition. An activity which meets Tier 2 or Tier 3 TSC may be classified as “Amber”. • The ASEAN Taxonomy imposes “Remedial Measures to Transition” as an Essential Criteria, besides “DNSH” and “Social Aspects”. • Considering the region-specific circumstances to facilitate an orderly and just transition, the ASEAN Taxonomy develops TSC specifically for coal phase-outs. |
| EU | <p>The EU’s Taxonomy Regulation provides a definition for transitional activities under Art.10(2). Accordingly, Annex 1 of the Climate Delegated Regulation indicates specifically which activities are transitional and provides the technical screening criteria (TSC) for the Substantial Contribution and DNSH alignment of these activities. The TSC for transitional activities will be reviewed every three years and amended where appropriate, in line with scientific and technological developments.</p> |
| Malaysia | <p>The Bank Negara Malaysia’s Climate Change and Principle-based Taxonomy (CCPT) and the Security Commission Malaysia’s Sustainable and Responsible Investment Taxonomy (SRI Taxonomy) are both principle-based taxonomies. They have decision trees and guiding questions to determine the classification results. Where an activity does not meet the criteria for the top category (“Climate Supporting” in CCPT or “Green” in SRI Taxonomy) but remedial efforts to mitigate harm have been taken, the activity can be classified as “Transitioning” in CCPT or “Amber” in SRI Taxonomy.</p> |
| Singapore | <p>The taxonomy proposed by the Green Finance Industry Taskforce (GFIT) adopts a traffic light system classifying activities as green, amber (transition), and red (harmful). The amber category is only applicable to the transitioning of existing infrastructure but not new projects. Activities classified as amber are not presently on a net zero pathway but are either: (i) moving towards a green transition pathway within a defined time frame; or (ii) facilitating significant emissions reductions in the short term with a prescribed sunset date.</p> |
| South Africa | <p>The South African Green Finance Taxonomy (1st Edition) envisaged to develop a transition taxonomy or to expand the green finance taxonomy with a transition chapter. It therefore temporarily removed economic activities related to gas and agriculture management practices from the first edition, for further consideration and stakeholder engagement. The current version provides TSC for some carbon-intensive industrial sectors (e.g., cement, aluminium, iron, steel, and ferroalloys, hydrogen, etc.)</p> |
| South Korea | <p>The K-Taxonomy classifies activities under “Green Sector” and “Transition Sector”. The latter includes seven economic activities which are deemed necessary at the current stage as an intermediate process for transitioning to carbon neutrality.</p> |

| Other official sector guidance | |
|--|--|
| The European Commission Recommendations on transition finance | The European Commission published its recommendations on transition finance (together with an accompanying Annex) under its broader June 2023 Sustainable Finance package. The recommendations define the concepts of “transition”, “transition finance”, “transition plans”, and provide guidance and practice examples on how companies and the financial sector can use the various tools of the EU sustainable finance framework on a voluntary basis for transition purposes. |
| The EU’s transition pathway for the chemical industry | In January 2023, the European Commission published the transition pathway for the chemical industry which identifies the actions and conditions needed to achieve the green and digital transition and improve resilience in the sector. The roadmap there consists of action-oriented and regulatory components as well as of a technology component that identifies electrification, hydrogen, biomass, waste, CCU & CCS among key technological contributors. |
| Japan’s sectoral decarbonisation roadmaps | The Ministry of Economy, Trade and Industry (METI) and the Ministry of Land, Infrastructure, Transport and Tourism of Japan developed sectoral decarbonisation roadmaps for a number of GHG-intensive industries, providing emission pathways and plan of actions to transition toward achieving carbon neutrality in 2050. Companies can refer to the sectoral roadmap to develop their own strategies and climate change measures and to raise funds in alignment with Japan’s Basic Guidelines on Climate Transition Finance . |
| OECD Guidance on Transition Finance - Ensuring Credibility of Corporate Climate Transition Plans | Released in October 2022, the OECD Guidance sets out elements of credible corporate climate transition plans, which aim to align with the temperature goal of the Paris Agreement. Among other things, the OECD Guidance is relevant to corporates developing transition plans and seeking to identify the most salient elements of existing initiatives as well as to financial market participants planning to provide finance for the implementation of net-zero strategies. |
| International market-based taxonomies | |
| The CBI Taxonomy and Sector Criteria | Compliance with the Taxonomy and the more detailed Sector Criteria is sought for certification under the Climate Bonds Standard . The CBI recently started to provide eligibility guidance for carbon-intensive sectors (e.g., basic chemicals, cement, shipping and steel) including for decarbonisation measures and production facilities, as well as pathways. Its Standard has also been expanded beyond use-of-proceeds instruments to cover certification for assets/projects as well as entity-level transitions of non-financial companies (including SLB instruments). |
| The ISO Taxonomy | The ISO Taxonomy (July 2022) covers the sector criteria, rationale for eligibility, potential environmental benefits and environmental performance indicators for the described projects, assets and supporting expenditures including for the purposes of transition of high-emitting sectors (e.g. cement, aluminium, iron & steel, etc.). Annex B of the Taxonomy provides exemplary thresholds, criteria, and exclusions also for these sectors/sub-sectors. |
| The MDBs-IDFC Common Principles for climate mitigation finance tracking | The Common Principles (October 2021) provide eligibility principles including for transitional activities as well as guidance on the greenfield vs. brownfield activity distinction for eligibility and on the exclusion of some activities. More specifically, the Common Principles provides a list of eligible activities consisting of 11 tables with relevant screening criteria and guidance for each activity. |



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