

30 January 2026

Submission to the UK Transition Finance Council Second Consultation on entity-level Transition Finance Guidelines

To the Transition Finance Council,

We welcome the opportunity to contribute to the second consultation on the Transition Finance Guidelines and appreciate the Council's continued engagement with stakeholders as this work progresses toward finalisation.

Clear frameworks have the potential to facilitate the flow of capital into hard-to-abate sectors in a manner that supports real-economy decarbonisation and aligns with our shared global objectives under the Paris Agreement. As the Guidelines are refined, maintaining clarity, credibility and international applicability will be important to support consistent use across markets.

This submission builds on ASFI's initial response and outlines several overarching considerations and input to the draft Guidelines, in addition to our responses to the consultation questions in **Appendix A**.

We welcome the opportunity to discuss any of these points further and thank you again for the opportunity to contribute to this important work.

Yours sincerely,



Kristy Graham

CEO

Australian Sustainable Finance Institute

ASFI's overarching considerations

The key objective of transition finance should be to support whole-of economy decarbonisation to meet the Paris Agreement objectives

Transition finance can play a critical role in economy-wide decarbonisation by directing capital to emissions-intensive entities and sectors that are essential to the functioning of the real economy and therefore must undergo significant transformation to enable economy-wide decarbonisation in line with the Paris Agreement objectives. Its purpose is to support this transformation by enabling investment in activities that deliver time-bound, pathway-aligned emissions reductions without prolonging or locking-in future carbon emissions pushing the Paris Agreement objectives out of reach.

Accordingly, the credibility of transition finance hinges on the guardrails set out in credible transition finance frameworks/guides, underpinned by the Paris Agreement objectives. Without these, transition finance and the associated “label” risks legitimising investment in continued high-emitting activities rather than driving the structural changes required for whole-of economy decarbonisation.

Activity level assessment is crucial to determining whether an entity is transitioning.

As stated in our previous submission, while it is useful to categorise entities and activities separately when viewed through the lens of financial transactions and particular uses, the Guidance should not lose sight of the connection between entities and their underlying economic activities.

Entities generate revenue by undertaking activities and projects using their existing asset base. Understanding an entity's activities and assets and how and when those assets will be replaced or upgraded, is one of the most instructive indicators to help capital allocators understand an entity's transition pathway.

The performance of an entity's capital assets largely determines its emissions; therefore, its capital plan is a key mechanism to determine that entity's decarbonisation trajectory. An entity's plan for acquiring, retrofitting and maintaining its capital assets provides an accurate forward-looking projection of its future emissions profile that can be more instructive than an entity's targets (which indicate what the entity is aiming to achieve) or emissions metrics (total or intensity), which indicate an entity's performance at a point in time.

Tracking emissions reductions year on year will indicate whether an entity is making progress, however it does not tell you what investment levers need to be deployed to facilitate progress. In contrast, CapEx reveals where a company is investing for the future and whether its balance sheet is positioned to support alignment with a low-emissions economy.

Alignment of CapEx with credible, Paris-aligned taxonomies or sectoral decarbonisation plans is therefore a key mechanism for assessing whether an entity is undertaking a genuine transition. Taxonomies and sector decarbonisation plans translate science-aligned sectoral pathways into clear investible activities and assets. Taxonomy-aligned (or similar) CapEx is particularly useful for entities that are highly emissions intensive and that require significant capital investment to decarbonise – for example in sectors such as mining and industrial manufacturing. For these businesses, adopting a taxonomy-aligned (or similar) CapEx metric can demonstrate the bona fides of their transition plans (ex-ante), and demonstrate the extent to which they have achieved them (ex-poste).

Accordingly, the Guide should explicitly recognise forward-looking, activity- and asset-level CapEx as a core input to assessing entity-level transition credibility. In particular, it should encourage the use of CapEx alignment with credible, Paris-aligned taxonomies or sectoral decarbonisation pathways and plans as a key indicator of whether an entity's strategy and balance sheet are supporting genuine, time-bound emissions reductions, rather than prolonging high-emissions activities.

Capacity to transition as a foundational consideration

The Guide should also support investors to recognise and distinguish between entities that are undertaking activities capable of transitioning and those that are structurally incompatible with a Paris-aligned future. This is fundamental to helping investors assess an entity's transition risk. Credible transition finance should apply only to entities undertaking activities that have a demonstrable capacity to transition in the long-term mitigating the risk of that entity being left with material stranded assets or diminished revenue due to the growth of low emissions alternatives or substitutes.

If transition finance guidance does not support/enable this assessment, it runs the risk of inadvertently supporting capital allocation towards investments with high transition risk and potential future stranded assets or creating carbon lock-in which prevents whole of economy decarbonisation, increasing long-term macro-economic risk across investment portfolios.

Key indicators of high transition risk/ lack of capacity to transition include:

1. Where an entity is operating in a sector/ undertaking high emitting activities that have a substantial "emissions performance gap" relative to a Paris-aligned sectoral pathway and the scale of transformation required is exceptionally high or non-existent for example, many fossil fuel sectors.
2. Paris-aligned sector decarbonisation pathways, sector plans and/or taxonomies do not recognise the decarbonisation of the entity's underlying activities as part of a feasible sector decarbonisation pathway due to the availability of low carbon substitutes or alternative decarbonisation options for the sector.
3. Low technology readiness levels of technologies to support the decarbonisation of activities being undertaken by the entity.
4. The entity continues to invest significant capital into existing activities while relying on "future" (high cost and/or low readiness) technologies to mitigate carbon lock in.

Interconnectedness of sustainable finance architecture

Finally, transition finance does not operate in isolation. Its effectiveness depends on coherence with the broader sustainable finance ecosystem, including climate-related disclosures, credible transition plans, sectoral decarbonisation pathways, and public policy frameworks that shape investment conditions. When these elements are aligned and mutually reinforcing, transition finance can mobilise private capital at scale, support real-economy decarbonisation, and contribute to an orderly, inclusive, and Paris-aligned transition.

Our responses to the consultation questions draw on these four overarching considerations.

Appendix A: Responses to consultation questions

Sections 1 and 2.1: Structure of the Guidelines

Is the structure of the Guidelines, Principles, Universal Factors and Contextual Factors appropriately explained and workable (i.e. the construct and relationship between them, rather than the Principles and Factors themselves)?

We broadly agree with the overall structure of the Guidelines, Principles, Universal Factors and Contextual Factors. As noted in our previous submission, we recommended simplifying the terminology by demonstrating how the Universal Factors serve as indicators of performance against the four Principles, which would help streamline the framework and reduce potential duplication across criteria. We also note that the Contextual Factors create overlap with existing tools and safeguards, with many of these considerations already addressed through standard ESG integration practices at the entity level or through Do No Significant Harm and Minimum Social Safeguards assessments at the activity level in taxonomies. We therefore recommended making it clear how the contextual factors can be satisfied using existing practice and frameworks.

Sections 2.2: Principles

Do you agree these are the right Principles?

Yes. The four principles - Credible Ambition, Action into Progress, Transparent Accountability, and Addressing Dependencies - remain appropriate.

However, ASFI recommends strengthening the credibility ambition principle by explicitly providing guidance to support users to consider/assess an entity's "capacity to transition" as an explicit foundational consideration, rather than leaving it implicit. While the latest Guidelines incorporates stronger expectations around credible pathways, feasibility and avoidance of carbon lock-in, the credibility of the Guidelines would be further enhanced by clearly assessing whether an entity's material activities are structurally capable of transitioning over time.

The feasibility of transition varies significantly across sectors, particularly those with substantial gaps to net zero. Even robust transition plans are less credible in sectors where the scale of transformation required is exceptionally high or where Paris-aligned pathways imply managed decline rather than transformation, for example in many fossil fuel-related activities. Structural constraints—such as technological readiness, capital intensity, infrastructure availability and the existence of lower-emissions substitutes—can materially limit the potential to transition. These dynamics are identifiable through credible Paris-aligned sector scenarios, which distinguish between sectors with transition potential and those where pathways lead to phasedown or phase-out. This would ensure ambition is grounded in realism and that transition finance is directed toward entities with both the intent and the structural potential to decarbonise over time.

As canvassed above, key indicators of high transition risk/ lack of capacity to transition include:

1. Where an entity is operating in a sector/ undertaking high emitting activities that have a substantial "emissions performance gap" relative to a Paris-aligned sectoral pathway and the scale of transformation required is exceptionally high or non-existent for example, many fossil fuel sectors.
2. Paris-aligned sector decarbonisation pathways, sector plans and/or taxonomies do not recognise the decarbonisation of the entity's underlying activities as part of a feasible sector decarbonisation

pathway due to the availability of low carbon substitutes or alternative decarbonisation options for the sector.

3. Low technology readiness levels of technologies to support the decarbonisation of activities being undertaken by the entity
4. The entity continues to invest significant capital into existing activities while relying on “future” (high cost and/or low readiness) technologies to mitigate carbon lock in.

We emphasise that carbon lock-in must remain a non-negotiable integrity safeguard within the Guidelines. Excessive flexibility across benchmarks, pathways and implementation levers risks creating scope for green-lighting high-emitting activities that are incompatible with a credible transition. Experience across debt markets shows that once high-value capex assets are financed, lock-in risks are difficult if not impossible to reverse. Consistent with guidance developed in the loan markets, carbon lock-in should be treated as a decisive constraint rather than a mitigable preference, particularly for investments with long asset lives, high investment needs, and/or limited technological optionality.

Lastly ASFI recommends that the Guidelines more clearly articulate expectations around avoiding carbon lock-in when assessing transition-labelled activities. Consistent with the [Loan Market Association Guide to Transition Loans](#), carbon lock-in occurs when fossil fuel infrastructure or assets (existing or new) continue to be used despite the availability of lower-emission alternatives, thereby delaying or preventing the transition to near-zero or zero-emission outcomes. Explicitly embedding this definition would help ensure that transition finance supports time-bound, pathway-aligned investments that enable real-world decarbonisation, rather than entrenching carbon-intensive assets or practices that undermine long-term climate objectives.

Does the Credible Pathway definition (contained in the Credible Ambition Principle) achieve the right balance between 1) being practical to assess 2) driving decarbonisation and 3) acknowledging the energy security and development challenges of industrial operators in emerging markets? If not, are there builds or adjustments you would propose?

ASFI broadly supports the Credible Pathway definition and welcomes the Council’s effort to balance global climate ambition with practical implementation across different geographies and sectors. However, we consider that the effectiveness of this definition depends critically on how consistently the Paris Agreement objectives are applied as the normative benchmark across the different methodologies that may be referenced.

While the definition appropriately states that qualifying methodologies should be “compatible with the Paris goal”, we recommend strengthening this safeguard by making explicit that:

- regional or national sector pathways, recognised roadmaps, and taxonomies should only be relied upon where they are compatible with the Paris Agreement objectives, rather than assumed to be so by virtue of official or regional status; and
- where pathways incorporate slower rates of decarbonisation due to regional or sectoral constraints, entities should clearly explain how those pathways nonetheless contribute to achieving global climate goals, rather than only reflecting local policy or economic circumstances.

Without an objective and consistently applied benchmark, there is a risk that materially different levels of ambition could be treated as equally “credible” under the transition label. In practice, this could allow activities that embed long-lived high-emissions assets - such as new upstream fossil fuel developments or new coal generation referenced in some regional pathways - to be assessed as transition-aligned, increasing the risk of carbon lock-in and undermining confidence in transition finance.

Sections 2.3: Universal Factors

Do you agree with the overall themes of the Universal Factors?

ASFI continues to agree that the overall themes of the Universal Factors (Interim Targets & Metrics, Implementation, Financial Viability, Engagement, Governance and Disclosure) are broadly the right ones to underpin credible transition finance assessments. These themes appropriately reflect the core dimensions of credibility and remain aligned with the four Principles.

ASFI also welcomes the simplification and streamlining undertaken in the revised draft. The clearer articulation of the Universal Factors enhances usability and should support more consistent application across markets and entity types. As mentioned above, we see opportunity to further simplify the Guidelines by demonstrating how the Universal Factors serve as indicators of performance against the four Principles, which would help streamline the framework and reduce potential duplication across criteria.

Do you believe an entity should be required to meet all the written criteria, or do you think it would be appropriate to split the criteria into categories of “essential” and “desirable”?

ASFI welcomes the Council’s continued efforts to strengthen the integrity and usability of the Universal Factors. Clear and credible guidance has an important role to play in mobilising capital towards real-economy transition, particularly in sectors where emissions reductions require sustained investment over time. However, we do not support introducing an “essential versus desirable” split that operates as a gating mechanism or otherwise lowers the credibility threshold for classifying transition finance.

While we support flexibility where it enables a meaningful assessment of transition credibility across different contexts, a gating mechanism introduces flexibility at the point of determining eligibility and removes crucial context that is fundamental to determining the credibility of transition. Expectations relating to credible pathways, capital allocation, implementation capability and the avoidance of carbon lock-in should remain central and should not be weakened through lighter eligibility thresholds.

While proportionality is important to ensure assessments focus on what is material to an entity’s transition, transition credibility cannot be reduced to a minimum checklist without undermining the purpose of the framework. Proportionality should support a focus on the activities, assets and capital allocation decisions that are most significant to an entity’s emissions profile and future trajectory, rather than minor or diminishing activities.

Assessing credibility therefore requires an understanding of what an entity does, the assets it operates, and how capital is allocated across those activities. An entity’s emissions profile and future trajectory are largely determined by its capital asset mix and capital plan. Targets and metrics provide useful signals of intent and progress, but they are not a substitute for assessing whether current investment decisions are aligned with a credible transition pathway, whether the entity (and underlying activities) is capable of transitioning and avoiding locking-in high-emitting assets.

In sectors with large structural gaps to net zero, even well-designed transition plans may face material feasibility constraints due to technology readiness, capital intensity, growth dynamics or limited control over value-chain emissions. In these cases, meeting a reduced set of “essential” criteria would not provide sufficient comfort that finance is supporting a genuine transition. A gating mechanism risks ruling in entities that appear credible on paper but whose underlying activities, asset lives or capital expenditure decisions remain misaligned with global climate goals.

Why a gating mechanism risks misclassifying high-risk transition activity

Consider an entity operating in a carbon-intensive sector such as fossil fuel production or primary steel manufacturing. The entity meets a set of “essential” criteria: it has published a transition plan, set emissions targets, disclosed climate metrics and demonstrated internal governance arrangements. On this basis, it would pass an initial gating screen.

However, the entity’s capital plan includes significant new investment in long-lived, emissions-intensive assets, or the extension of existing asset life beyond credible sectoral pathways. Abatement technologies are either not commercially viable at scale or rely on future policy and cost assumptions that remain uncertain. As a result, the bulk of transition risk and potential carbon lock-in is created at the point of financing.

In this scenario, a gating mechanism would rule the entity in as transition-eligible before assessing the very factors that determine credibility — namely asset lifetimes, capital allocation and feasibility of alignment under plausible transition scenarios. Deferring assessment of these issues to a secondary “desirable” stage risks classifying high-risk activity as credible transition finance, despite limited ability to avoid lock-in or deliver emissions reductions consistent with global climate goals.

For these reasons, we consider that transition credibility should continue to be assessed holistically, drawing on the Universal Factors together with contextual factors. Transition risk is inherently forward-looking and scenario-dependent. Credibility depends not only on current disclosures or interim performance, but on whether an entity’s transition approach remains robust under plausible policy acceleration, shifts in demand, or changes in the availability and cost of technology. Simplification should therefore focus on improving clarity and practically identifying alternative evidencing methods and/or assurance rather than reducing expectations in ways that transition risk is assessed.

Section 2.4: Contextual Factors

Do you agree with how and when Contextual Factors are considered? If not, how could it be made clearer or improved?

ASFI maintains its view that while the Contextual Factors identified are relevant, their separate categorisation may not be necessary. Most are already addressed either:

- at the entity level through standard ESG integration and ISSB-aligned disclosures; or
- at the activity level through taxonomy-based Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) requirements; or
- could be naturally incorporated into existing Universal Factors linked to the four Principles.

We therefore encourage the Council to consider further simplification by making it clear how the contextual factors can be satisfied using existing practice and frameworks. For instance,

- **Adaptation and resilience** considerations are already embedded in ISSB S2 climate-related financial disclosures and DNSH requirements for physical-risk thresholds.
- **Publicly stated long-term targets** directly support the Credible Ambition Principle and could logically sit within the Interim Targets & Metrics Universal Factor.

- **Third-party assurance** strengthens Transparent Accountability and could be integrated into the Disclosure or Implementation Universal Factors.
- **Environmental and social risks** are standard practice in ESG assessment and are already covered via DNSH/MSS criteria in taxonomies.
- **Offsetting** relates directly to how entities implement their transition strategies and could be reflected within the Implementation and Disclosure Universal Factors.

Streamlining the Guide in this way would improve usability and clarity for market participants, supporting more consistent application and encouraging broader uptake, thereby maximising the Guide's value and impact in mobilising credible transition finance.

Questions relating to the Implementation Handbook

Section 5: Factor and Principle assessment examples

Do the examples provided in this section make it clearer how certain criteria could be evidenced and what the threshold of expectation is? How could the structure/depth of the case studies be improved to be more practically useful?

ASFI considers the case studies in Section 5 to be appropriately scoped and useful in illustrating how the Universal Factors and Principles can be applied in practice. We support their inclusion within the Handbook, as this reinforces its role as a practical reference for users of the Guidelines. Over time, expanding the set of examples to cover a wider range of sectors, activities, entity types and uses across public and private debt would further support consistent application. Maintaining and iteratively building out these examples within the Handbook would help users navigate and apply the framework while preserving the Handbook as the primary reference point.