Australian Sustainable Finance Institute

22 September 2025

Submission to the UK Transition Finance Council Guidelines Consultation

To the Transition Finance Council,

We commend the Council on the release of the draft Transition Finance Guidelines (Consultation on entity level Transition Finance Guidelines) and appreciate the opportunity to contribute feedback to this important initiative.

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.

Below are several overarching considerations and input to the draft Guidelines in addition to our responses to the questionnaire 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

Interconnectedness of sustainable finance architecture

While it is useful to categorise entities and activities separately when viewed through the lens of financial transactions and particular uses, the Guide should not lose sight of the strong inter-connectedness 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 entities 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 capital plan for acquiring, retrofitting and maintaining its capital assets provides a more accurate forward looking projection of its future emissions profile in a way that target setting and emissions metrics will not. Targets can help indicate what the entity is aiming to achieve, while emissions metrics (total or intensity) indicate an entity's performance at a point in time.

Tracking emissions reductions year on year you will indicate whether an entity is making progress, however it does not tell you what investment levers need to be deployed to facilitate progress. This is why CapEx—the investment in new capital assets—is crucial to understanding the credibility of an entity's transition approach. CapEx shows where a company is investing for the future, what emissions it's enabling, and whether it's supporting or delaying the transition with its balance sheet.

One of the best ways to track the credibility of CapEx is through alignment with credible (Paris-aligned) taxonomies that detail climate activities, assets and projects compatible with a science-aligned transition trajectory. Taxonomy provides practical and targeted support for investors and funders to identify and allocate capital towards activities that will support an entities credible transition.

Identifying (and disclosing) the percentage of planned CapEx that is aligned with a credible taxonomy can provide a valuable metric for entities to understand and communicate their climate-related opportunities. Where an entity's operations are covered by a taxonomy, if a high (or increasing) share of planned investment is taxonomy-aligned, it suggests management is actively shifting the business model toward low-carbon activities. Low or no alignment could suggest either a) business model lock-in to higher risk activities; or b) missed opportunities in growth areas. Entities can also set targets for CapEx alignment, which can be tracked through an assessment of actual CapEx investment over the relevant period.

Taxonomy-aligned 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 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).

For these reasons taxonomies are increasingly recognised in global frameworks (e.g. IRFS, GFANZ, SBTi, ICMA) as a consistent, comparable, and decision-relevant benchmark to assess the credibility of transition planning and disclosures.

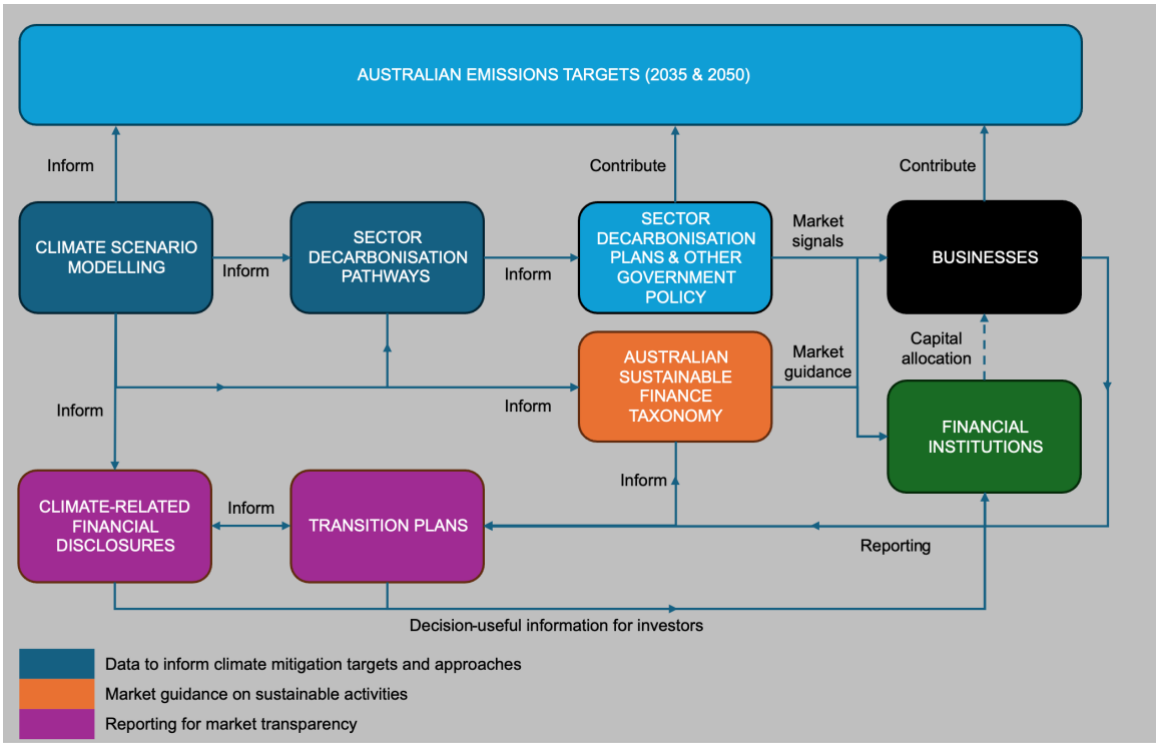
In Australia we are starting to see how the different component parts of the policy architecture are coalescing to create key building blocks for Australia's energy transition. They include climate scenario modelling, sector-specific decarbonisation pathways, sector decarbonisation plans, climate-related disclosures and transition planning, and a sustainable finance taxonomy.

These building blocks support the approach and assessment of transition-aligned entities.

The Australian taxonomy is informed by granular sector decarbonisation pathways built from credible Paris-aligned climate decarbonisation scenario modelling. The taxonomy is the tool that translates the modelling and sector pathways into clear definitions and technical screening criteria for the activities that are already green (i.e. aligned to a 1.5-degree pathway) or needed for the transition of Australia's economy.

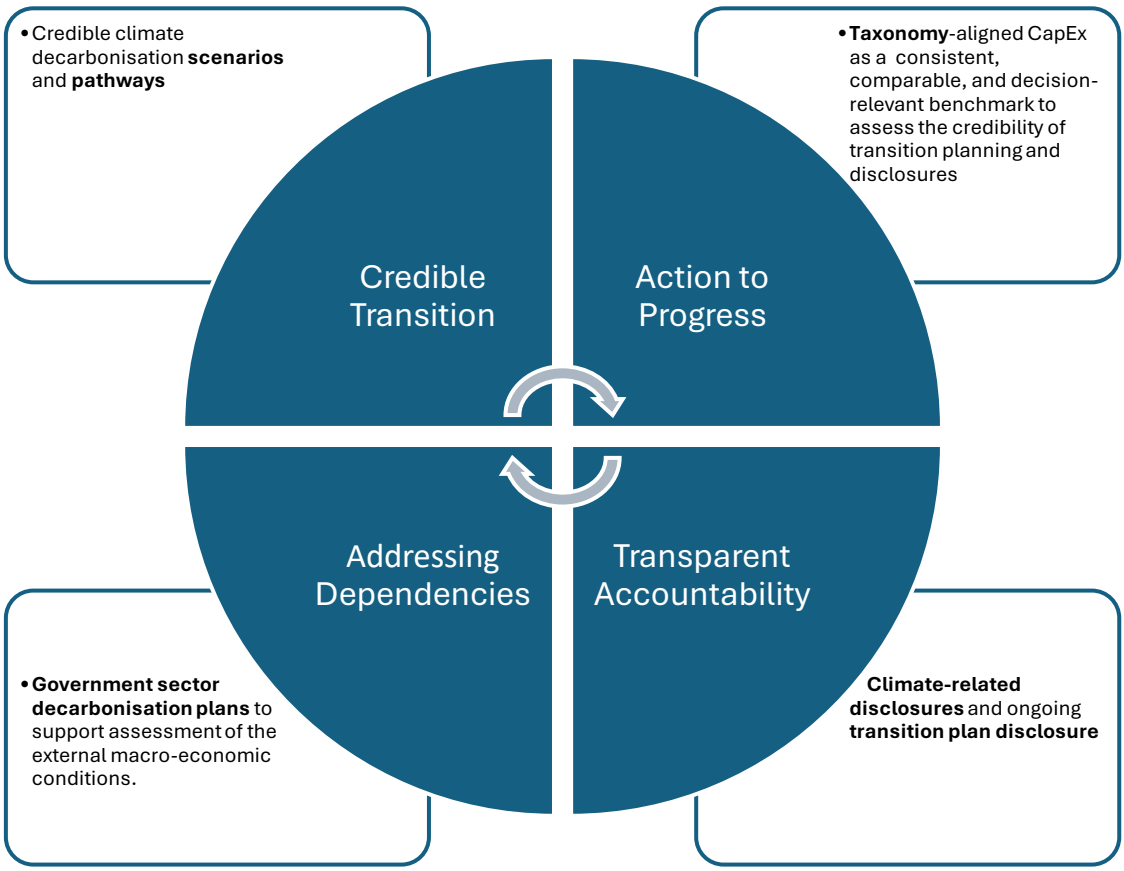
The modelling and pathways also inform the Australian Government's sector decarbonisation plans, released on 18th September 2025. The sector decarbonisation plans articulate a suite of government policies, laws and programs that incentivise the uptake of technologies and transformation of sectors as outlined in the sector decarbonisation pathways, leading to emissions reductions in line with sectoral and national targets. By collating all the policy measures and government incentives by sector, they will also enable private capital to make better assessments of which sectors and activities government policy will support.

Further information of how elements of Australia's climate architecture combine to enable private capital flows for climate mitigation is illustrated below:



The importance of contextualising and linking entity level transition finance guidance within these broader tools is crucial to ensuring the Guidelines can support the mobilisation of capital towards our shared Paris aligned objectives.

We see these foundational tools supporting the Transition Finance Council entity level Guidelines as follows:



Credible ambition principle and the use of country NDCs, regional pathways and taxonomies

ASFI supports the definition in the Guide that credible pathways mean "those that are compatible with the Paris Agreement goal of holding the increase in the global average temperature to well below 2 degrees above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 degrees above pre-industrial levels". However, we recommend that the Council consider tightening the considerations around references to regional taxonomies and pathways. To achieve the Paris Agreement objectives all climate finance should use the Paris Agreement as the normative benchmark to assess the credibility of the tools and frameworks they reference.

While the starting point for the performance of transition-eligible assets and entities will differ depending on domestic circumstances, the credibility of transition financing depends on whether

it is enabling the achievement of our global climate goals, regardless of where the entity is located.

Accordingly, regional taxonomies or "official" national pathways linked to NDCs should only be used where they are compatible with the Paris Agreement objectives. Without this safeguard, there is a risk that activities such as new upstream fossil fuel developments or building new coal power generation assets, which are contained in some regional taxonomies and pathways, could be included. This would undermine the credibility of "transition-labelled" lending and investment and facilitate the lock-in of high carbon assets under the transition label.

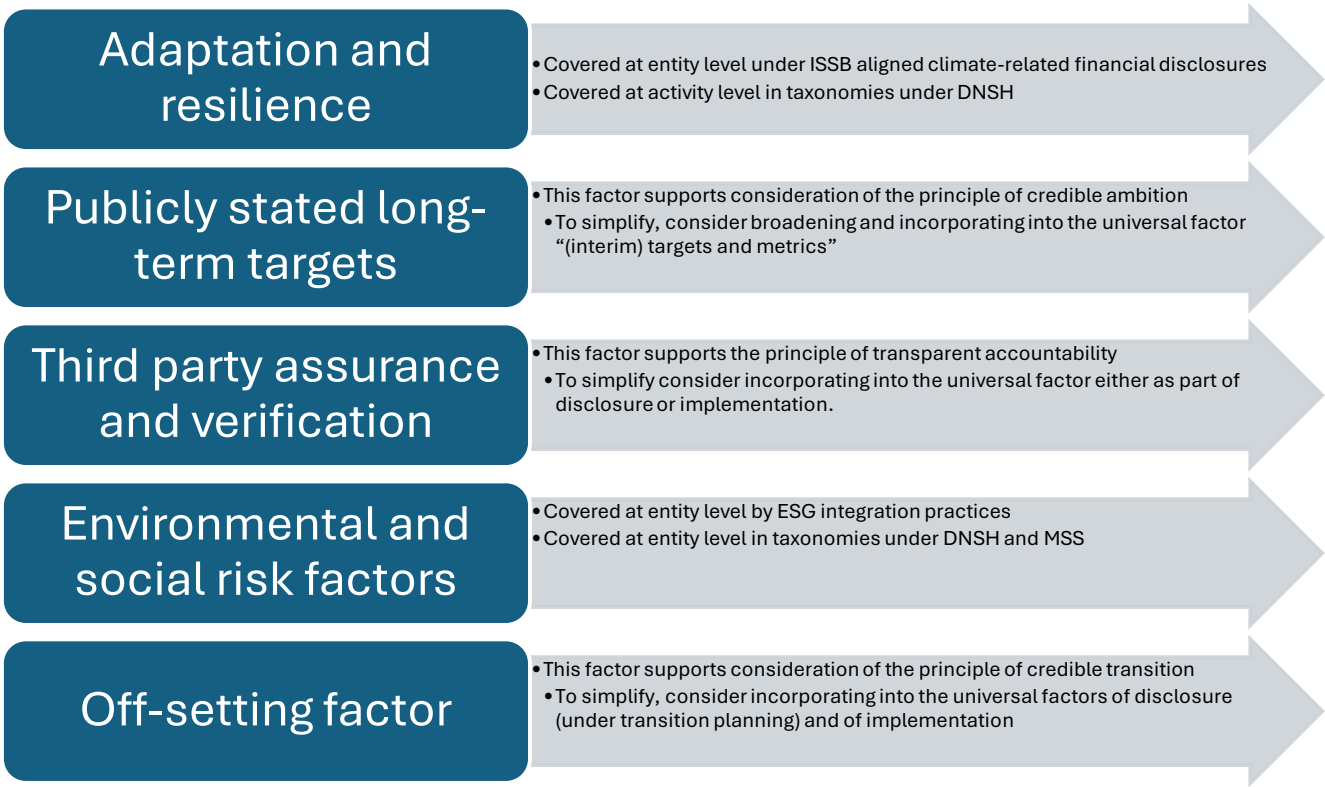
Likewise, NDCs should not be used as a reference for determining transition-aligned entities (or activities). NDCs are a political determination of a country's willingness and ability to contribute to global decarbonisation based on a variety of factors not related to climate change mitigation. NDCs are not an objective science-based determination of an entity or economic activity's compatibility with the Paris Agreement objectives. For this reason, NDCs are not an appropriate benchmark to assess credible transition financing at the entity or activity level.

Refinement and streamlining guidance to make more usable

To enhance usability and clarity, ASFI recommends referring to the universal factors simply as "indicators of performance" of the four Principles. This terminology would streamline the framework and enhance its accessibility for a range of stakeholders.

The Council should consider whether the contextual factors are necessary. All the contextual factors are either:

- addressed as part of ESG integration practices and at activity level through taxonomy Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) assessment; or
- could be incorporated as part of the four Principles and corresponding indicators (universal factors).



Capacity to transition as a foundational consideration

While the Guidelines do incorporate considerations for avoiding carbon lock-in as part of the Credible Ambition Principle and the 'implementation factor', the credibility of the Guidelines would be enhanced if there was an overall consideration of whether the entity is capable of transition.

The feasibility of transition varies significantly across sectors, particularly those with substantial gaps to net zero. Even the most robust transition plans are less credible in sectors where the scale of transformation required is exceptionally high or non-existent, for example many fossil fuel sectors. Structural constraints—such as technological readiness, capital intensity, and the existence of low-carbon substitutes—can limit the potential or even negate the need for transition as new substitute industries take their place. These sectors are clearly identifiable using credible Paris-aligned scenarios, such as IEA, IPCC and NGFS which identify key sectors where the transition pathway leads to a phasedown (or out) of the sector.

To ensure credibility of the Guidelines and safeguard against carbon lock-in and the high potential for stranded assets in the medium-term, ASFI recommends that the Guidelines explicitly incorporate (as part of the Credibility Principle) an entity's capacity to transition based on credible Paris-aligned pathways. This approach ensures that 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.

ASFI recommends considering the globally applicable approach outlined in the transition methodology of the Australian taxonomy (Pages 14-18), with appropriate adjustments to make

them applicable to entity assessment. The principles determine the eligibility of activities for transition. The methodology determines that an activity is eligible for transition if based on the nature of the activity

- it can become compatible with a future post-net zero economy i.e. Scope 1, 2 and 3 emissions can be materially reduced for this activity in the medium-to long term; and
- there are no lower emissions alternatives/substitutes that produce the same output; and
- the activity directly contributes to reducing emissions or enabling the growth of zero-emissions technologies.

Lastly we recommend the language used in the Guidelines around carbon lock-in should be amended to align with the ICMA green enabling guidelines. These state, "*Green Enabling Projects should not lead to locking-in high GHG emitting activities relative to other technologically feasible and/or commercially viable solutions, including at the level of an enabled Green Project*."

Appendix A: Responses to consultation questions

Section 1.5: Use Cases

Do you agree with the potential users and use cases of the Guidelines? Are there any you disagree with or any additional users/use cases we have missed?

Most of the use cases could be supported by the guidance, however many use cases identified already draw on other parts of the sustainable finance architecture to achieve the uses identified such as, sector decarbonisation pathways, climate-related disclosures and transition plan disclosures, and taxonomies.

ASFI recommends the uses of the Guide are considered in the context of the broad sustainable finance architecture. This will enable a more nuanced and accurate understanding of the key uses of the Guide, where it could be duplicative or additive.

ASFI is uncertain if the Guide can deliver the intended government applications set out in the consultation paper. Specifically, the measurement of capital flows to the transition. Accurate tracking of the implementation of an entity's transition plans through consistent, comparable metrics like taxonomy-aligned CapEx is a stronger indicator of this. The disclosure of this by a large proportion of entities will enable aggregation to understand macro-capital flows.

Section 3.1: Global Interoperability

Which standards or frameworks are most important for the Guidelines to align with to ensure interoperability?

The Guidelines should align with globally recognised frameworks such as:

- **IFRS/ISSB** for climate-related disclosures and credible transition planning
- **SBTi** for science-based targets
- **ICMA** green bond principles and green enabling projects guidelines
- **Credible Paris-aligned taxonomies**, like the EU and Australia.

These frameworks provide consistent, science-based benchmarks essential for assessing transition credibility.

Section 3.2 & 3.3: Proportional Application and Credible Ambition

Do the Guidelines appropriately balance the requirements for ambition with proportionality for entities in different contexts? Is it sufficiently clear? Are there changes you consider necessary to the Credible Pathway definition?

ASFI supports the definition in the Guide that credible pathway's means "those that are compatible with the Paris Agreement goal of holding the increase in the global average temperature to well below 2 degrees above pre-industrial levels and pursuing efforts to limit the

temperature increase to 1.5 degrees above pre-industrial levels". However, we recommend that the Council consider tightening the considerations around references to regional taxonomies and pathways. To achieve the Paris Agreement objectives all transition finance should use the Paris Agreement as the normative benchmark to assess the credibility of the tools and frameworks they reference.

While the starting point for the performance of transition-eligible assets and entities will differ depending on domestic circumstances, the credibility of transition financing depends on whether it is enabling the achievement of our global climate goals, regardless of where the entity is located.

Accordingly regional taxonomies or "official" national pathways linked to NDCs should only be used where they are compatible with the Paris Agreement objectives. Without this safeguard, there is a risk that activities such as new upstream fossil fuel developments or building new coal power generation assets, which are contained in some regional taxonomies and pathways could be included. This would undermine the credibility of "transition-labelled" lending and investment and facilitate the lock-in of high carbon assets under the transition label.

Likewise, country NDCs should not be used as a reference for determining transition-aligned entities (or activities). NDCs are a political determination of a country's willingness and ability to contribute to global decarbonisation based on a variety of factors not related to climate change mitigation, they are not an objective science-based determination of an entity or economic activity's compatibility with the Paris Agreement objectives.

For this reason, NDCs are not an appropriate benchmark to assess credible transition financing at the entity or activity level.

How would you propose the Guidelines could better address challenges for entities in EMDEs? Can you provide examples of tools you have used or case studies in an EMDE context that helped address those challenges? (e.g. other frameworks, estimation methodologies, engagement methods etc.).

The considerations of emerging markets and developing economies (EMDEs) should be considered through Addressing Dependencies Principle. This will help contextualize the operating conditions of the entity and the viability and pace of the transition pathway.

Global scenarios like the IEA's net-zero scenario, which factor in slower decarbonisation pathways for emerging markets and identify Paris-aligned investment pathways to facilitate decarbonisation in these markets, should be used to guide credible transition options for these entities operating in emerging market contexts.

Section 4.2: Principles

Do you agree these are the right Principles?

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

However, ASFI recommends adding "Capacity to Transition" as a foundational consideration under Credible Ambition.

While the Guidelines do incorporate considerations for avoiding carbon lock-in as part of the Credible Ambition Principle and the 'implementation factor', the credibility of the Guidelines would be enhanced if there was an overall consideration of whether the entity is capable of transition.

The feasibility of transition varies significantly across sectors, particularly those with substantial gaps to net zero. Even the most robust transition plans are less credible in sectors where the scale of transformation required is exceptionally high or non-existent, for example many fossil fuel sectors. Structural constraints—such as technological readiness, capital intensity, and the existence of low-carbon substitutes—can limit the potential or even negate the need for transition as new substitute industries take their place. These sectors are clearly identifiable using credible Paris-aligned scenarios, such as IEA, IPCC and NGFS which identify key sectors where the transition pathway leads to a phasedown (or out) of the sector.

To ensure credibility of the Guidelines, safeguard against carbon lock-in and the high potential for stranded assets in the medium-term, ASFI recommends that the Guide explicitly incorporates (as part of the Credibility Principle) an entity's capability to transition based on credible Paris-aligned pathways. This approach ensures that 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.

ASFI recommends considering the globally applicable approach outlined in the transition methodology of the Australian taxonomy (Pages 14-18), with appropriate adjustments to make them applicable to entity assessment. The principles determine the eligibility of activities for transition.

The methodology determines that an activity is eligible for transition if based on the nature of the activity

- it can become compatible with a future post-net zero economy i.e. Scope 1, 2 and 3 emissions can be materially reduced for this activity in the medium-to long term; and
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Lastly we recommend the language used in the Guidelines around carbon lock-in should be amended to align with the ICMA green enabling guidelines. These state, "*Green Enabling Projects should not lead to locking-in high GHG emitting activities relative to other technologically feasible and/or commercially viable solutions, including at the level of an enabled Green Project*."

Does the Credible Ambition Principle achieve the right balance?

ASFI supports the definition in the Guide that credible pathway's means "those that are compatible with the Paris Agreement goal of holding the increase in the global average temperature to well below 2 degrees above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 degrees above pre-industrial levels". However, we recommend that the Council consider tightening the considerations around references to regional taxonomies and pathways. To achieve the Paris Agreement objectives all climate finance should use the Paris Agreement as the normative benchmark to assess the credibility of the tools and frameworks they reference.

While the starting point for the performance of transition-eligible assets and entities will differ depending on domestic circumstances, the credibility of transition financing depends on whether it is enabling the achievement of our global climate goals, regardless of where the entity is located.

ASFI further recommends the language used in the Guidelines around carbon lock-in should be amended to align with the ICMA green enabling guidelines. These state, "*Green Enabling Projects should not lead to locking-in high GHG emitting activities relative to other technologically feasible and/or commercially viable solutions, including at the level of an enabled Green Project*."

What guidance would be helpful for Addressing Dependencies?

Relevant credible Paris-aligned scenarios and pathways underpinned by government sector decarbonisation plans that articulate a suite of government policies, laws and programs that incentivise the uptake of technologies and transformation of sectors in line with the sector decarbonisation pathways.

Section 4.4: Contextual Factors

Do you agree with how and when Contextual Factors are considered?

The Council should consider whether the contextual factors are necessary. All the contextual factors are either addressed at an entity level as part of ESG integration practices and at activity level through taxonomy Do No Significant Harm and Minimum Social Safeguards assessment; or could be incorporated as part of the four Principles and corresponding indicators (universal factors).

a) Adaptation and resilience:

- Covered at entity level under ISSB aligned climate-related financial disclosures
- Covered at activity level in taxonomies under DNSH

b) Publicly stated long-term targets

- This factor supports consideration of the principle of credible ambition. To simplify, consider broadening and incorporating into the universal factor "(interim) targets and metrics"

c) Third party assurance and verification

- This factor supports the principle of transparent accountability. To simplify consider incorporating into the universal factor either as part of disclosure or implementation.

d) Environmental and social risk factors

- Covered at entity level by ESG integration practices
- Covered at entity level in taxonomies under DNSH and MSS

a) Off-setting factor

- This factor supports consideration of the principle of credibly transition. To simplify, consider incorporating into the universal factors of disclosure (under transition planning) and of implementation