



Transition finance update: creating a global framework for entity-level transition finance

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The UK Transition Finance Council (TFC¹) is consulting until September 19, 2025 on Guidelines on providing entity-level transition finance (Guidelines) to high-emitting and hard to abate sectors.

Why is this relevant?

The consultation is a chance for interested parties to help influence the creation of what may become the future global framework for evaluating the credibility of entity-level transition finance. Notably, the Guidelines build upon the UK Transition Finance Market Review, which has been received well internationally, and are informed by the work of the Transition Plan Taskforce (TPT), which has been adopted by the International Financial Reporting Standards (IFRS) Foundation.

The Guidelines are designed for global relevance. In the absence of a consistent framework capable of application across jurisdictions and asset classes to evaluate entity-level transition finance, the Guidelines are intended to be interoperable and consistent with key sustainability standards and frameworks. These include the International Sustainability Standards Board (ISSB) standards, the Net Zero Investment Framework and the TPT disclosure framework. Notably, to further refine the Guidelines, the TFC is factoring in developments globally, including relevant work in Australia, Canada, China, the EU, Japan, Singapore, and UAE.

Feedback is widely invited, including from finance providers seeking to manage the risks and opportunities of providing transition finance and from businesses seeking to ensure the credibility of their transition efforts. For further details of how different user groups may use the Guidelines, which will help frame the relevance of the Guidelines to your businesses, see pages 10–11 of the consultation paper.

Consultation focus and views being sought

The focus of the consultation is on evaluating the provision of transition finance to entities in high-emitting and hard to abate sectors transitioning to low-carbon models. For the TFC, this focus is driven by the need for greater real-world decarbonisation impact: “capital flow to transitioning entities in high-emitting sectors in advanced and emerging markets... is needed to enable real-economy decarbonisation” and “global finance tends to flow in greater volume at the entity-level than at project or activity-level, making it a key area for unlocking real-world impact”.

Broadly, the consultation seeks views on the following topics:

- Who are the potential users of and use cases for the Guidelines?
- Which standards or frameworks should the Guidelines seek to align with?
- Are the Guidelines sufficiently clear and do they appropriately balance the requirements for ambition with proportionality for entities in different contexts (e.g. entities in emerging markets and developing economies, and medium-sized entities)?
- Are the Guidelines practical and simple to implement (in terms of their construct and terminology)?
- Other questions related to the appropriateness, completeness, challenges and practicalities related to the Principles and Factors, and what further guidance might be appropriate to support implementation.

Timeframe for finalising the Guidelines

The TFC is taking a phased approach to developing the Guidelines:

- First consultation: This summer consultation (August 18 to September 19) aims to test the core structure, ambition and useability of the Guidelines to identify areas that require further work. In parallel to the summer consultation, several workstreams are underway, e.g., developing implementation guidance on applying the Guidelines to different asset classes.
- Second (global) consultation: A winter consultation is planned from November 2025 to early January 2026 to gather global views on a refined version of the Guidelines, to be updated based on feedback from the summer consultation.
- The final form Guidelines are to be launched in March 2026. Relatedly, following the TFC's recent Call for Evidence, specific guidance will be published later this year to support the development of Sector Transition Roadmaps, which are expected to inform entities' application of the Guidelines.

As mentioned, the Guidelines are designed to be interoperable with key standards and frameworks, including the ISSB standards, transition plan disclosure frameworks and the UK Sustainability Disclosure Requirements. To encourage consistency, themes from responses to the TFC's summer consultation may be shared with the UK government and the UK Financial Conduct Authority (FCA) as they contemplate new transition plan-related disclosure requirements and ISSB-aligned reporting requirements.

Coincidentally, the TFC's consultation will close in the same week as the government's three consultations on sustainability reporting, transition plan disclosures and sustainability assurance (closing on September 17, 2025). For more details, please refer to our bulletins examining the trio of consultations: Sustainability reconfiguration in the EU and the UK—recent highlights - A&O Shearman and The UK consults on its draft Sustainability Reporting Standards - A&O Shearman.

Overview of the proposed Guidelines

The TFC emphasised that the Guidelines are not a prescriptive disclosure framework but are intended to support finance providers in judging whether an entity's transition is credible. It added that “the development of a fully prescriptive framework is a matter for the individual stakeholder or capital provider... institutions may want to use [the Guidelines] to inform their own transition related frameworks”.

The proposed Guidelines comprise:

- four Principles which must be true for transition finance to be credible:

(i) **Credible Ambition:** The entity must have a “Credible Ambition” to substantially reduce emissions consistent with “Credible Pathways” which are defined by reference to the Paris Agreement, allowing for different nationally determined pathways, sector specificities, temperature alignments, etc.

(ii) **Action into Progress:** The entity must be reasonably capable of progressing implementation actions that are consistent with the delivery of its ambition, including by avoiding or minimising carbon lock-in.

(iii) **Transparent Accountability:** The entity must have integrated its implementation actions, targets and metrics into its business planning, organisational processes and corporate governance.

(iv) Addressing Dependencies: The entity must have taken into account, and be managing, dependencies that are material to the achievement of relevant targets and the robustness of its transition planning. The dependencies, uncertainties and sensitivities tend to vary by sector and geography—see also the contextual factors mentioned below.

- six Universal Factors which form a “constant minimum criteria to be used in all cases” (regardless of entity size, geography or other context) to evidence whether the Principles are met: interim targets and metrics; implementation; financial viability; engagement; governance; and disclosure.
- non-exhaustive Contextual Factors that may be considered if these could materially affect an entity’s ability to deliver a credible transition of its business (e.g., physical climate risks; environmental and social risks; risks of illegitimate offsets; lack of third-party assurance; lack of publicly stated long-term climate target).

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