



Transition loans: The loan trade associations publish their much-awaited guidance

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On 16 October 2025, the loan trade associations (LMA, APLMA and LSTA) published their much-anticipated Guide to Transition Loans (the “**Guide**”).

This Guide is intended as a practical, voluntary resource designed to support loan market participants navigating the fast-evolving and complex field of transition finance. It looks to provide a foundation for financing credible transition strategies, particularly within sectors that are not yet considered "green" but are essential to the global net-zero transition.

The Guide has been informed by a taskforce of over 60 institutions, predominantly from the financial sector, and shaped by engagement with leading market authorities across key jurisdictions. This broad collaboration was aimed at ensuring that the Guide reflects diverse market perspectives and is compatible with emerging regulatory developments across geographies.

To address some of the persistent challenges of articulating the parameters of transition finance, such as fragmented taxonomies, definitional ambiguity, and verification and reporting difficulties, the Guide:

- clarifies the distinction between transition finance and financing the transition;
- outlines clear parameters for what qualifies as transition finance; and
- presents, in exposure draft form, a voluntary, cross-jurisdictional framework for activity-level, use of proceeds transition loans.

The Guide looks to offer borrowers and lenders actionable insights and tools to integrate transition objectives into loan structures. Its aim is to help catalyse large-scale capital flows toward transition

activities and accelerate progress toward global decarbonisation goals.

We have summarised the headline points from the Guide below, as well as other recent and upcoming developments in the transition finance space.

Overview of the Guide

1. Defining transition finance

The Guide defines transition finance by reference to six components, stating that transition finance should be objective-aligned, avoid lock-in risks, be benchmarked against science, do no significant harm, be impact orientated, and that there should be an absence of low carbon alternatives.

Although transition finance is particularly relevant for hard-to-abate and high-emitting sectors, the Guide notes that it may also be applied more broadly across sectors and jurisdictions, provided that the financed activities meet applicable criteria and align with credible decarbonisation pathways.

2. Credible transition strategies

The Guide emphasises that transition finance requires a combined focus on the **borrower entity** as well as the **asset/project** being financed. This is because a borrower's specific transition investments need to support its overall strategy to reach net zero, and so the credibility of both the transition strategy and the asset/project is key.

The Guide suggests a borrower may demonstrate a credible transition strategy through: (a) a transition plan or planning process, and/or (b) a robust set of indicators showing alignment with recognised transition themes and decarbonisation pathways. The transition plans and/or indicators must be specific to the borrower, taking into account its sector, jurisdiction, and market best practice. This emphasis on context is especially significant for small and medium-sized enterprises ("**SMEs**") and emerging market and developing economies ("**EDMEs**"), which have typically faced greater challenges in setting out their transition strategies and accessing transition finance (due to technical, economic, and/or infrastructural constraints).

At the asset/project level, the Guide notes that transition finance should support assets/projects that align with the borrower's broader transition strategy and demonstrate clear climate impact, for example, through direct emissions reductions or by enabling

system-level change. Overall, there should be harmony between the borrower's overarching transition strategy and what the borrower is actually doing at an operational level.

3. Transition labelled loans

The bulk of the Guide is dedicated to improving the credibility and integrity of transition loans across two categories: (a) general corporate financing of entities (via sustainability-linked loans ("SLLs")) and (b) use of proceeds transition loans.

(a) General corporate financing of entities (SLLs)

SLLs can support entity-level transition efforts by incentivising borrowers to achieve sustainability objectives. Importantly, SLLs are flexible instruments which can be tailored to a borrower's specific strategies and goals.

The Guide emphasises the importance, for an effective transition-themed SLL, of rigorous key performance indicator ("KPI") selection, ambitious sustainability performance target ("SPT") calibration, and transparent reporting with independent verification, in line with the SLL Principles and Guidance published by the loan trade associations and most recently updated in March 2025. For more information on this, please see our blog post and briefing on the updated SLL Principles and Guidance.

(b) Use of proceeds transition loans

There has, to date, been no dedicated labelled loan framework for use of proceeds loans which support transition activities falling outside of the traditional "green" classification. The Guide seeks to address this, by providing users with a set of Transition Loan Principles in exposure draft form.

These Transition Loan Principles constitute a voluntary, cross-jurisdictional framework which describes the defining characteristics of a credible use of proceeds transition loan. They follow the structure of the Green/Social Loan Principles (in relation to which, please see our blog post and briefing), amended and supplemented to reflect the intricacies of financing projects which do not qualify as "green" but nevertheless contribute to a reduction in carbon emissions and help move the borrower towards net zero.

The five core components of the Transition Loan Principles are:

1. **Entity-level transition strategy:** borrowers should present a credible entity-level transition strategy (e.g., through a transition plan) to ensure the asset/project(s) being financed will contribute meaningfully.

2. **Use of proceeds:** a fundamental determinant of a transition loan is the use of the loan proceeds for eligible transition projects only. Transition projects include assets, investments and other related and supporting capital and/or operating expenditures that are not yet aligned with the goals of the Paris Agreement but contribute meaningfully to the decarbonisation of the real economy. The Guide includes a non-exhaustive list of existing taxonomies which can be referred to in order to help identify eligible transition projects, although this will ultimately be a decision for the parties on individual transactions.
3. **Process for evaluation and selection:** borrowers should clearly communicate the rationale and governance behind the selection of eligible transition projects to lenders.
4. **Management of proceeds:** the proceeds of the loan should be credited to a dedicated account or otherwise tracked.
5. **Reporting:** borrowers should keep up-to-date information on the use of proceeds and report this regularly to lenders.

Although not a component, external review is encouraged at both the pre-transaction stage (to assess alignment with the Transition Loan Principles) and the post-transaction stage (to confirm that the projects in question continue to meet the eligibility criteria and remain consistent with the borrower's overarching transition strategy).

Market participants are likely to be familiar with components 2 through 5 above, given these largely mirror (at a high-level) the components of the loan trade associations' existing Green/Social Loan Principles. This consistency should help with the implementation and adoption of the Transition Loan Principles, including within lenders' sustainable and transition finance frameworks.

Other recent transition finance-related developments

The Guide comes hot on the heels of a number of recent developments in the transition finance space, including the publication of the Transition Finance Market Review's recommendations report in October 2024 and the subsequent consultations and reports by the Transition Finance Council, including draft voluntary entity-level guidelines for transition finance. These updates have sought to draw attention to, and propose solutions for, the same barriers to transition finance

highlighted by the Guide, including fragmented taxonomies, lack of credibility and integrity in the market, and uncertainty around scalability of certain technologies.

As noted above, the Guide emphasises the importance of transition plans in demonstrating the credibility of borrowers' transition strategies. The UK Government recently concluded its consultation on mandating transition plans for UK-regulated financial institutions and large companies (see our blog post for more details), following a manifesto commitment by the Labour Party. It remains to be seen how the UK Government will proceed, although the consultation indicates a potential direction of travel.

Conclusion

The Guide is a helpful starting point for loan market participants seeking to navigate the complexities of transition finance, particularly as it was developed in collaboration with a range of institutions and so reflects a variety of perspectives, sectors and jurisdictions. It offers market participants the tools, which have up to now been lacking, to integrate transition objectives into loan structures.

The Transition Loan Principles remain open to market feedback over the next six to twelve months, allowing space for them to develop as the Guide is used in practice and the Principles are implemented in real-life transactions. All this, when taken together with the efforts of other bodies such as the Transition Finance Council and UK Government, should support the market in scaling transition finance in a meaningful and credible way and in turn accelerate the flow of capital towards transition activities and the ultimate goal of decarbonisation.

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