



The Opportunity to Transition: ICMA Climate Transition Bonds, the Transition Loan Principles and the Transition Plan Taskforce

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Introduction

Transition finance is emerging as a key market tool to enable companies operating in high-emitting or hard-to-abate sectors to access funding. While it has been much discussed, it has lacked frameworks that provided it with credibility. However, the recent publication of the International Capital Market Association (ICMA) Climate Transition Bond Guidelines and the Guide to Transition Loans by the Loan Market Association (LMA), in collaboration with the Asia Pacific Loan Market Association (APLMA) and the Loan Syndications and Trading Association (LSTA), provides the much-needed frameworks for raising transition finance.

At the same time, the publication by the UK Transition Finance Council (TFC) of its “Sector Transition Plan: The Finance Playbook” provides methodologies and guidance to support the development of transition plans to capitalize on this growing sustainable finance opportunity.

ICMA Climate Transition Bond Guidelines

On 6 November 2025, the ICMA published its Climate Transition Bond Guidelines (CTB Guidelines), introducing “Climate Transition Bonds” (CTBs) as a standalone use-of-proceeds label. The CTB Guidelines are aimed squarely at high-emitting sectors, such as energy, steel, cement, chemicals and others, that have found it difficult to access the sustainable finance labelled bond market. Under these guidelines, issuers can raise capital for credible transition plans rather than exclusively “pure green” projects, with a label and framework the market already recognises.

1. Key Features of the Climate Transition Bond Guidelines

1. Core Components

The CTB Guidelines are voluntary market standards and closely track the format of the Green Bond Principles. CTBs are expected to set out how they align with the four familiar components: (a) use of proceeds, (b) process for project evaluation and selection, (c) management of proceeds and (d) reporting.

Issuers are encouraged to publish a bond framework describing this alignment and to obtain external reviews (e.g., a second-party opinion or verification) to support transparency. For investors, this should make CTBs feel relatively familiar from a process perspective, even if the underlying projects look different from a typical green bond.

2. Climate Transition Projects and Safeguards

Proceeds of CTBs must be dedicated to “Climate Transition Projects” (i.e., projects that materially avoid, reduce or remove greenhouse gas emissions in high-emitting activities or sectors). The CTB Guidelines deliberately cast the net wider than traditional green use-of-proceeds categories, allowing, for example, the early phase-out of high-carbon assets or investment in new technologies that make an existing activity significantly less emissions-intensive.

To protect the credibility of the label, issuers are expected to “meet or explain” a series of safeguards when selecting projects, including:

- **Strategic transition plan:** The issuer has a credible climate transition strategy or plan, and the funded projects clearly fit within that pathway.
- **No viable alternatives:** There is analysis showing that no viable low-carbon alternative is available to deliver the same outcome.
- **Alignment with pathways:** Projects are aligned with relevant sectoral decarbonisation pathways, taxonomies or market-based roadmaps, and are consistent with Paris-aligned net-zero trajectories.
- **Beyond business-as-usual:** Expected emissions reductions go beyond what would occur under business-as-usual and deliver a meaningful improvement in performance.
- **Carbon lock-in mitigation:** Any risk of “carbon lock-in,” which prolongs the life of high-emitting assets or crowding out cleaner options, is identified, disclosed and mitigated.

Taken together, these points are designed to give investors a reasonable degree of comfort that a CTB is financing a genuine transition rather than simply rebadging existing capex.

2. Illustrative Project Categories

The CTB Guidelines also include an illustrative, non-exhaustive list of project types that may qualify as Climate Transition Projects. Many of these would previously have sat at the edge of, or outside, what most investors would call “green”. Examples include:

- Carbon capture, utilisation and storage (CCUS) and other carbon-removal solutions applied in fossil-based energy or industrial processes
- Early retirement or decommissioning of high-emission assets, such as the permanent early closure of

coal-fired power plants

- Fossil-fuel switching to lower-carbon alternatives (e.g., converting a coal-fired facility to run on gas), where the design anticipates further moves to low-carbon fuels and addresses methane and other emissions
- Development and use of lower-carbon fuels (and related infrastructure), such as sustainable biofuels or hydrogen that can displace higher-emitting fuels
- Methane-emission reduction and flaring-abatement measures in existing oil and gas operations

The explicit inclusion of these categories is important. It signals to power, steel, cement, chemicals, oil and gas, and similar sectors that they can access the sustainable bond market for well-structured transition activities, including where fossil-fuel assets are involved, provided the safeguards are respected. The CTB Guidelines therefore broaden the investable universe rather than drawing a hard line between “green” and “non-green”. They also recognise that in practice the distinction between a “green” and a “transition” project will sometimes be contextual and leave room for issuer judgement within the principles set out in the guidelines.

3. Guidance for Sustainability-Linked Bonds

Unlike CTBs, which require proceeds to be allocated to specific transition projects, “Sustainability-Linked Bonds” (SLBs) do not restrict the use of proceeds. Instead, under ICMA’s 2024 SLB Principles, the bond’s financial terms, such as coupon adjustments, are directly linked to the issuer’s performance against clearly defined sustainability targets. While CTBs focus on financing project-level decarbonisation, SLBs aim to incentivise company-wide climate progress over time.

Alongside use-of-proceeds bonds, the CTB Guidelines include recommendations for high-emission issuers using SLBs to support their transition. ICMA suggests that at least one key performance indicator (KPI) in an SLB should relate directly to greenhouse gas emissions, either an absolute or intensity metric, or a closely-related proxy.

Sustainability performance targets (SPTs) for these KPIs are expected to be ambitious and aligned with science-based decarbonisation pathways. In practice, investors are likely to look for independent validation that targets are “science-based”, or at least a clear intention to seek such validation. The aim is to ensure that SLBs issued by high-emitting entities drive measurable transition outcomes, and to position SLBs as a complement to CTBs rather than a substitute.

LMA’s Guide to Transition Loans

On 16 October 2025 the Loan Market Association published its “Guide to Transition Loans”, which includes guidance on transition finance provided either for general corporate financing or use of proceeds products.

1. What Is a Transition Loan?

The guide outlines three key components common to all Transition Loans: (i) setting objectives aligned with an economy-wide, Paris-aligned transition; (ii) avoiding lock-ins of carbon-intensive assets; and (iii) benchmarking against science-based pathways where available. Use of proceeds loans additionally should do no significant harm to other goals; meaningfully contribute to decarbonization targets; and are provided to projects where there is no feasible low carbon alternative within the local context.

The guide sets out entity-level transition strategy expectations, which can either be met with a transition plan or “transition indicators” that are aligned with a decarbonization pathway. Transition plans are expected to include a clear strategy, actions to realise the strategy, metrics to track progress and mechanisms for monitoring delivery against the plan.

Where a formal transition plan is not available, the guide provides a non-exhaustive list of transition indicators, including publication of climate-related disclosures or relevant reporting and time-bound phase-out of high-emitting assets or sites. It is the collective presence of several indicators that demonstrates a robust commitment to the transition, rather than any single indicator, and this approach should help ensure companies that lack a best-in-class transition plan are not excluded from accessing Transition Loans.

2. General Corporate Financing

The guide sets out that sustainability-linked loans (SLLs) should be used for providing transition finance that is general corporate financing. It provides guidance that the selected KPIs must support a reduction in the borrower’s GHG emissions and that they should cover Scope 1 and 2 emissions (and Scope 3 where it is material). Sustainability performance targets must be calibrated with integrity and ambition, going beyond “business as usual” trajectories and regulatory requirements.

3. Use of Proceeds Financing: Draft Transition Loan Principles

For use of proceeds loans, the Guide to Transition Loans includes an exposure draft of the Transition Loan Principles. The exposure draft is a voluntary, cross-jurisdictional framework. It is intended to evolve with market input as it is used over the next six to 12 months, at which point the LMA has indicated it will publish a recommended final version and supporting guidance.

Transition Loans include any type of loan instrument or contingent facility used to finance eligible transition projects. To qualify as a Transition Loan under the LMA’s Transition Loan Principles, the loan must meet the five core components but not be eligible to be a green project under the Green Loan Principles. The five core components are: (1) having a credible entity level transition strategy; (2) setting a use of proceeds for an eligible transition project that contributes meaningfully to the decarbonization of the real economy; (3) having a process for evaluation and selection; (4) establishing management of proceeds; and (5) establishing reporting procedures.

Opportunities for Financial Institutions, Issuers and Investors

The CTB Guidelines and the introduction of LMA Transition Loans offer new market opportunities:

- **Issuers in High-Emission Sectors** For carbon-intensive companies, CTBs and Transition Loans offer a new way into the labelled sustainable finance market. Issuers and borrowers that have struggled to identify sufficient “pure green” capex can now look at transition-oriented spend, such as early retirements, efficiency upgrades, fuel switching and enabling infrastructure. This can broaden the investor base for their debt and help to position the issuer’s overall transition story in a more structured way.
- **Investors** For institutional investors, CTBs and Transition Loans provide a common reference point for assessing credible transition financing. For investors with net-zero or temperature-aligned portfolio targets, labelled transition finance can provide a route to stay invested in high-emitting sectors while still engaging strategically for tangible change.
- **Financial Institutions (Banks and Underwriters)** For banks, CTBs and Transition Loans will enhance their product suite and create opportunities for advisory work. There is an opportunity to help clients either through providing transition labelled lending or by assisting in bringing transition finance bond transactions to market. Institutions that move early are likely to build internal expertise and relationships that translate into repeat issuances and a stronger sustainable finance franchise. Banks that have published transition finance targets will also be able to use labelled transition finance towards meeting their targets.

The TFC ‘Sector Transition Plans: The Finance Playbook’

The TFC’s “Sector Transition Plans: The Finance Playbook” seeks to provide “a practical guide to embedding finance plans within sector transition plans to mobilise finance for real economy transition”. Coupled with the draft Transition Finance Guidelines that were the subject of a consultation earlier this year, they provide comprehensive analysis of the building blocks for transition pathways.

Conclusion

The publication of ICMA’s CTB Guidelines and the Guide on Transition Loans provide a clearer and more market-friendly way to finance transition activities in high-emitting sectors. For issuers, investors and financial institutions willing to engage with the detail, transition finance offers a way to turn transition planning into concrete, financeable transactions and, in doing so, to open up a new stream of business around the move to a low-carbon economy. Market actors could look to the TFC’s growing body of guidance to inform financial product development.

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