

IIGCC

Member-only consultation on transition finance

July 2024

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IIGCC: Member-only consultation on transition finance

IIGCC seeks to work with investor and associate members to form a position on 'transition finance', to articulate how this concept could be useful to investors in mitigating the financial risks associated with climate change by supporting real-economy emissions reductions.

This document summarises a number of considerations on this topic based on discussions of the IIGCC Transition Finance working group, engagement with other members, and our existing work and resources. It outlines the consultation questions and invites members to share broader views on the topic, which will be used to inform a position paper.

Disclaimer

Competition law prohibits agreements and concerted practices that have the object or effect of preventing, restricting or distorting competition. The most serious breaches of competition law often involve the exchange of competitively sensitive information and coordination of strategic behaviour between competitors. Our work is conducted in accordance with all relevant laws, including competition laws and acting in concert rules. Participants in this consultation will not be asked for and must not disclose or exchange strategic or competitively sensitive information about their competing businesses, meaning data or information that reduces uncertainty as to how they intend to act commercially now or in the future (e.g. pricing, volumes, detailed costs, detailed customer or supplier information, business strategy, investment plans). Participants must not coordinate views or conduct in such a way that could restrict competition between members or the investment companies, or result in members or the investment companies acting in concert (this includes one-way disclosure of information). It is important to note that an exchange of information can achieve the same end as an explicit agreement and it is important to avoid exchanging information which might result in a breach of competition law, even if only inadvertently.

In addition, whilst IIGCC's vision is to support investors in understanding risks and opportunities associated with climate change and take action to address them, participants must take care not to coordinate the strategic competitive behaviour of competing companies, whether members or competing companies. Members which are subject to legal or regulatory regimes which prohibit or restrict the disclosure of sensitive or confidential information or material non-public information (e.g., issuers subject to the EU Market Abuse Regulation) are solely responsible for compliance with their obligations under such regimes, including when determining whether information pertaining to their organisation is subject to public disclosure or other requirements.

Please also note that IIGCC's services to members do not include financial, legal or investment advice.

1 General information

The consultation will run from 11 July to 9 August 2024. In addition to the content questions summarised in section three, responders will be asked to provide information about their organisation and role. Individual responses will be treated as confidential, but views expressed will be used to inform IIGCC's position paper on transition finance or to facilitate further discussion with the market. For questions, please contact Valentina Ramirez, vramirez@iigcc.org.

2 Background considerations

2.1 Classification of financial activity that can be captured by 'transition finance'

A clear definition of transition finance could help to galvanise and direct the capital needed to transition assets towards alignment and mitigate financial risks. But at present the concept is used interchangeably to denote a wide range of financial activities with different impacts on the pace and scale of the transition. Investors are less able to easily distinguish between these impacts under a broad definition.

The extent to which an instrument can be directly linked to the transition differs, at least, by:

- **Financial instrument:** Not all types of finance can be equally linked to the causation of a transition outcome in the real economy. This varies substantially depending on the instrument itself. Variation is particularly notable between primary and secondary markets, and between general and special-purpose investing. For example, a private equity investor can influence asset activity differently when compared to an investment in an index fund.
- **Asset characteristics:** Not all assets contribute equally to delivering the transition. This differs depending on at least sector and geography. For example, finance that helps to decarbonise emissions-intensive or hard-to-abate sectors typically accelerates the transition more than that provided to lower-impact sectors. Likewise, the expected pace of activities, such as the phase-out of misaligned assets (e.g. coal-fired power), differs in developed versus emerging and developing markets.
- **Climate solutions:** Not all transition finance is provided to decarbonise the asset itself. Some assets enable the transition of a sector or value chain beyond their own operations, i.e. [climate solutions](#)¹ and therefore need to be evaluated differently.

¹ For more information, see IIGCC's Guidance on investing in climate solutions: listed equity and corporate fixed income. Accessible at this link: <https://www.iigcc.org/resources/iigcc-climate-solutions-guidance>

Following these factors and through our engagement with members and stakeholders, IIGCC can identify **two main categories** that could be useful in further delineating transition finance. Both of these categories could include assets that fall into the definition of climate solutions.

- 1. General purpose investing** in assets transitioning according to a maturity scale, such as the NZIF alignment criteria, which is time-bound and dependent on sector pathways and technological means. E.g. listed equities that are delivering against a transition plan, a sustainability-linked bond (SLB) or loan (SLL) with time-bound KPIs to move along alignment 'buckets' encouraging entity-level transition.
- 2. Specific purpose investing** for an asset's transition, either direct primary finance to transition activities per a taxonomy or whitelist, or debt investing with clear sustainability linked or conditions related to maturity scale progression.

It could be useful to distinguish between these two categories of finance because, whilst both general and specific purpose finance can be used to support the transition, how this can be assessed differs between the two types.

2.2 Utility to the market

A key question as to whether any categorisation should apply would be the utility of their classification and how it would help investors, their assets, and other stakeholders enable increased intentional operational and capital allocation to the net zero transition whilst providing guardrails against greenwashing.

To develop a definition or set of guardrails around transition finance, we first need to establish how it could be used by (and/or be useful to) financial institutions and other relevant actors in their efforts to mitigate financial risks associated with climate change.

Example use cases identified to date include informing resource and capital allocation to the net zero transition, providing guardrails against greenwashing, enabling labelling of specific products, communicating to stakeholders, or tracking transition activity internally.

2.3 The role of transition plans

Transition plans have been a useful innovation in assessing the alignment of large corporate assets with global climate goals, which consequentially can help to inform whether investments in these assets could be classified as 'transition finance'.

However, there are some instances in which transition plans could be considered not essential or useful for classifying 'transition finance'. Examples could include:

- Primary finance for whitelisted goods or activities that can clearly demonstrate that it is financing a transitional activity, regardless of whether the entire entity involved is transitioning.
- Actors that are small or in low-impact sectors – may have less of a clear business case to produce a transition plan but may be transitioning regardless.

3 Responding to the consultation

Questions:

1. Do you agree with the considerations set out in section 2.1? Are there any factors missing that would influence the ability of an instrument classified as 'transition finance' to influence the real-economy transition?

2. To what extent should investment in climate solutions overlap with transition finance?

3. What is your view on the two categories of transition finance as set out in section 2.1?

- a. Is this the right delineation? If not, please provide thoughts on alternative delineation or any missing categories.
- b. Should all of these categories be included in 'transition finance'?
- c. What would be the utility of each category for you as an investor?

4. In your view, for an instrument to be classified as transition finance, is it essential that the asset has a transition plan? Are there any exceptions to this?

5. Do you have any other comments or broader views that should be considered in the development of an IIGCC position paper on this topic?

[Respond to the consultation](#)