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# Transition Finance: The Emerging Baseline for Bank Disclosure

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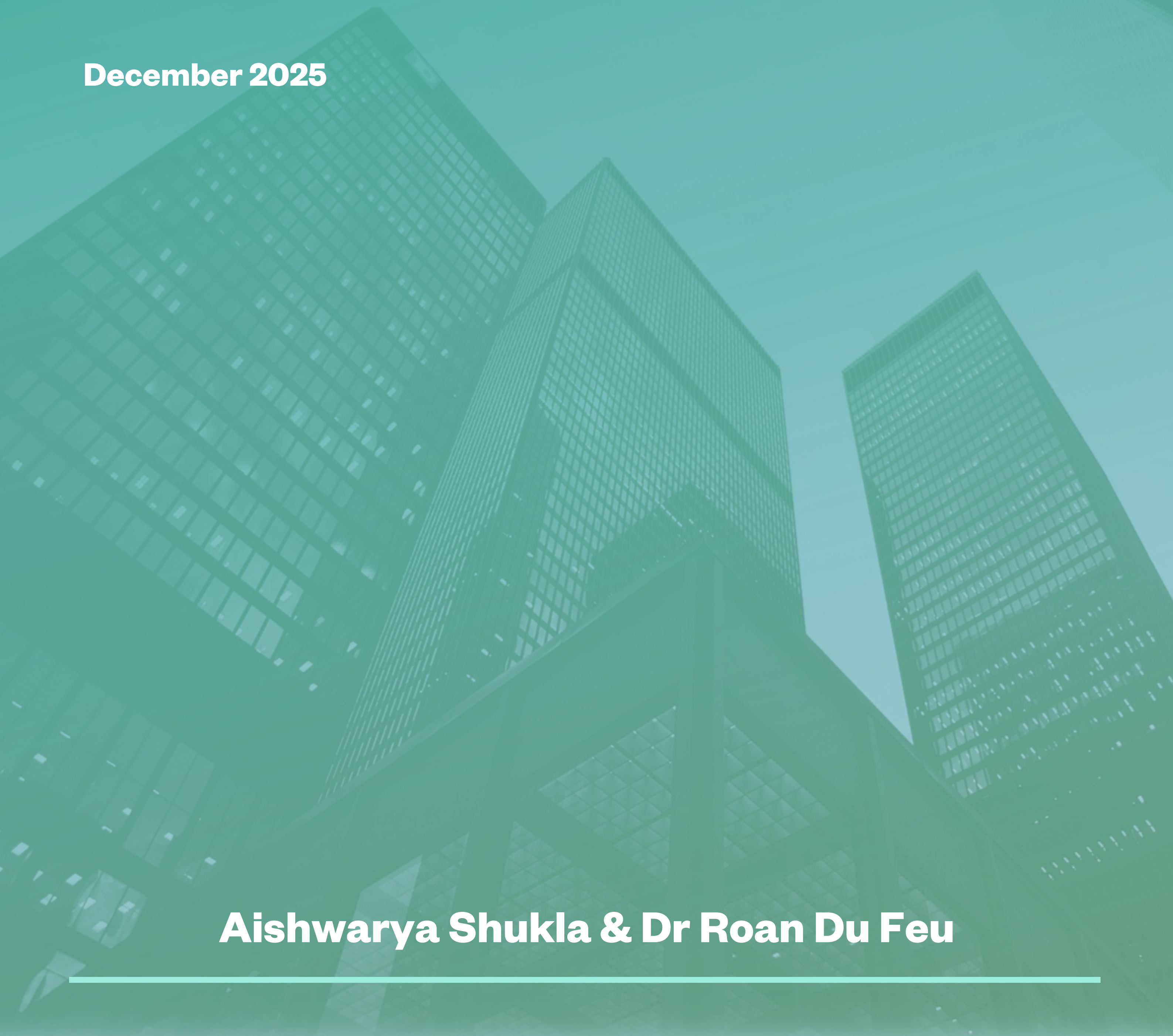

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## Introduction to Transition Finance

While there is no single definition of transition finance, the concept addresses the complexity of wholesale 'greening' of entire sectors and industries. While green finance focusses on investment in areas that are already environmentally friendly, transition finance shifts the focus of investment toward those essential carbon-intensive industries required to originate low-carbon technologies to decarbonise the global economy (examples in Figure 1).

**GREEN FINANCE**
- A bond to a wind farm
- A loan for constructing a LEED certified building.

**TRANSITION FINANCE**
- Investment to replace fossil-fuel cement kilns with electrical lines
- Financing a gas plant with a time-bound phase-out plan.

*Figure 1: Examples of Green and Transition Finance*

Alongside green finance, transition-finance creates additional avenues for directing sustainable capital allocation from investors to issuers, and transition finance approaches and policy instruments are evolving to mobilize this capital toward such activities. As capital is redirected, regulators are increasingly requiring transparency around how organizations plan, measure, and finance decarbonization, and the regulatory landscape is starting to take a clearer shape.

## Disclosure Requirements: ESG Book Framework Mapping Exercise

Transition plan and strategy requirements are increasingly embedded across global regulatory frameworks, and disclosure regimes are converging on a practical reporting baseline. The comparison below highlights shared requirements across IFRS, ESRS, TPT, Pillar 3 and market practice:

### Transition Plan Regulatory Reporting Requirements

| Framework / Regime | Key Disclosure Metrics | Relevant Financial Instruments |
|---|---|---|
| IFRS / ISSB (S2) | Transition plan, financial effects, CapEx/OpEx plans, scenario analysis | Loans, bonds, equity, derivatives, real assets, off-balance-sheet commitments |
| ESRS E1 | Transition plan (targets, actions, CapEx/OpEx, governance), taxonomy KPIs | Taxonomy-linked CapEx/OpEx, green/sustainability-linked loans & bonds, project finance, equity, guarantees |

| Framework / Regime | Key Disclosure Metrics | Relevant Financial Instruments |
|---|---|---|
| TPT – Banks | Financing channels supporting transition, financed emissions, sector policies | Lending, underwriting, advisory, transition finance products |
| Bank Transition Plans (Market Practice) | Governance, targets, financed emissions, sector policies, transition-finance volumes | Lending, project finance, underwriting, guarantees, green/transition products |
| BCBS / EBA Pillar 3 | Climate-risk metrics, exposure classification | Credit & trading exposures, loans, bonds, equity, derivatives, guarantees |
| BoE – PRA (2025) | Opportunities & transition planning, progress against targets | Loans, project finance, equity, debt, derivatives, securitized assets, real assets, guarantees |
| TCFD | Strategy, risk management, metrics & targets (including transition plan) | Loans, bonds, insurance, investments, hedging |
| PCAF[1] | Financed emissions (Scopes 1–3), absolute emissions, year-on-year changes | Loans, project finance, bonds, equity, real estate, mortgages, sovereign bonds, business/consumer loans |
| Green /ICMA Principles[2] | KPI-linked performance, use-of-proceeds reporting | Green bonds, transition bonds, sustainability-linked bonds (SLBs), sustainability-linked loans (SLLs) |
| Global Taxonomies | Classification of sustainable activities, CapEx/OpEx/Turnover alignment | Loans, bonds, project finance, equity tied to eligible activities |

[1] The standard was updated in November 2025. Enhancements to the Financed Emissions (Part A) and Insurance-Avoided Emissions (Part C) frameworks, along with new supplemental guidance on Financed Avoided Emissions and forward-Looking Metrics, help address the complexities of assessing emissions across diverse financial instruments, including loans, investments, insurance products, bonds, and derivatives.

[2] ICMA released new guidance in 2025 as a practical tool to support transition finance for Green Bond Principles (GBP), Sustainability Bond Guidelines (SBG), Climate Transition Bond Guidelines, and Sustainability-Linked Bond Principles – where proceeds are directed toward transition or green projects, or toward implementing an issuer's strategy to reduce GHG emissions, particularly for hard-to-abate sectors. Recommended disclosures include four key elements: 1. the issuer's climate transition strategy, governance, 2. business model environmental materiality, 3. climate transition targets and science-based targets for emissions reduction, 4. transparency in implementation.

## A Practical Baseline

ESG Book has conducted a rigorous framework mapping exercise to identify the practical and proportionate 'baseline' that preparers should aim to disclose. Across regimes, seven pillars consistently emerge as the building blocks of a credible transition plan, outlined below, with the recommended minimum disclosure highlighted with italics:

- Governance: A clear governance statement, oversight of the board & senior management, detailing roles and accountability for transition-related decisions.
- Targets: Quantitative GHG reduction targets with defined timeframes—covering Scopes 1–2 and material Scope 3 or financed emissions—supported by a narrative transition plan or strategy.
- Action plan: Decarbonization action plan with associated CapEx/OpEx or resource allocation, and implementation milestones.
- Boundary: Definition of which emissions scopes and which parts of the value chain or portfolios are included, and how materiality is applied
- KPIs: Key climate metrics such as emissions, performance against targets, and relevant sector- specific indicators. Transparency on methods and assurance.
- Resilience: Use of climate scenarios to test strategic resilience, with disclosure of methodologies, assumptions, and key uncertainties.
- Monitoring: Approach to tracking progress, internal review mechanisms, and external reporting frequency. Including internal controls, policies and procedures.
- Assurance (nice-to-have): Verification or attestation of transition data, typically in the form of limited or reasonable assurance, performed by an independent third party with relevant expertise and credentials.

## Enabling Transition Finance

Transition finance is ultimately delivered through familiar instruments — loans, bonds, equity — but governed by transition-linked criteria. These are the channels through which companies finance decarbonization and banks measure their portfolio alignment, financed emissions, and climate-related risks. Debt instruments—including corporate loans, project finance, and green or sustainability-linked bonds and loans—are the most consistently relevant because transition actions are largely CapEx-driven. Equity exposures also matter, particularly for investors, by shaping portfolio emissions and alignment assessments that feed into transition reporting.

These instruments are increasingly being used at scale and already banks are taking initiative and showcasing transition finance as a strategic priority. Recent commitments by leading global banks are highlighted below, and compared directly in Figure 2:

- **Transition Focus**: Deutsche Bank has launched a framework to direct €900 billion to transition projects by 2030, targeting hard-to-abate sectors (source).
- **Scale Acceleration:** BBVA raised its sustainable-business goal from €300 billion (2018-2025) to €700 billion (2025-2029) (source).

[3] Measuring financed emissions is complex; for clarity and consistency, firms are recommended to follow the PCAF GHG Accounting Standard, including its latest guidance on Financed Emissions, Insurance-Avoided Emissions, Financed Avoided Emissions, and Forward-Looking Metrics.

- **Overperformance:** Société Générale exceeds its €300 billion sustainable-finance target (2025), setting a new €500 billion goal (2030) for decarbonizing high-emissions sectors (source).
- **Upscaling:** NatWest doubles its 2030 sustainable-finance target to £200 billion, expanding from green finance into the decarbonization of cement and steel (source).
- **Rapid Mobilization:** CaixaBank mobilizes €20.99 billion in green and transition finance in the first half of 2025 —62% of its annual goal and up 28% year-on-year (source).


*Figure 2: Old and new ambitions for four major banks.*

## Looking Ahead

As transition finance accelerates and disclosure regimes begin to converge, a clear message is emerging: banks will be expected to demonstrate not just ambition, but instrument-linked evidence of how they are reallocating capital to credible decarbonization pathways.

Considering this trend, ESG Book is committed to helping banks on this journey. Incorporating the logic of interoperability, we have determined reliable and essential input and output metrics relating to transition-linked financial instruments. Banks can use this to provide a basis for assessment, enabling sustainable finance that focusses not just on investing in green sectors, but on decarbonizing the highest emitting ones, a requirement for any pathway to net zero.

Looking ahead to 2026, we will deepen this conversation with a data-driven analysis of transition-finance flows and reporting maturity across global companies—offering insights that empower financial institutions to turn commitments into results. The journey to net zero requires bold action, and transition finance is the bridge that makes it possible. Stay tuned for what's next.

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