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“Transition Finance Guidance (Final version)” has been set up by Academic Study Group in Japan to contribute for considering global common standard.

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The Transition Finance Study Group (TFSG), formed by academic researchers specialized in green & sustainable finance in Japan, organized by the Research Institute for Environmental Finance (Japan), has published “transition finance guidance” as its final report which has been developed from interim report in April this year.

The reason we made the guidance for transition finance is to contribute to establish common global standard for the transition finance rather than national one. Because what we are required from future societies or generations are to change and transform existing global system based on using fossil fuel energy and mass disposal type into more sustainable ones for both our society and our planet. To do so, we should support existing carbon intensive business activities and corporate entities to change and convert more green and clean ones.

Providing money to new green projects is necessary but not enough to changing whole economic and social system by smooth and cost-effective ways. Because we have had huge volume of old type projects, corporate entities and related systems around the world. We can call them “Brown projects and brown corporates”. In addition, we need to build up global transition finance standards consistent with global financial markets. Therefore transition finance is quite significant to reform our global system.

We explain key points of our guidance.

- 1) In the case of transition finance, we recommend 6 principles and verification of the Goals, Processes, and Outcomes (GPO) of the transition for both business activities and corporate entities. Those 6 principles comprise of Use of Proceeds, Process of Evaluation and Selection for Project and Companies, Identification of the Transition Process and Outcomes, Management of Proceeds, Reporting, External Assessment.
- 2) It categorizes two types of transition finance, “A-type” finance (i.e. A=asset) and “C-type”

finance (i.e. C= corporate entities or companies). Although in our interim report, we focused on “A-type” transition finance targeting projects, assets and activities by corporate entities but not for corporate itself. Transition with corporate entities should be desirable to combat global warming or reduce higher impact on environment by corporate activities. However, we worried it was hard to measure or calculate holistic transition impact of corporates in terms of financial outcome or results.

But after announcing our former report, ICMA published Sustainable-linked Bond Principles based on setting Sustainable Performance Targets ( SPIs ) and Key Performance Indicators (KPIs) . We introduce their idea (KPI-linked) for C-Type transition finance.

- 3) But not all corporate entities in all types of industries or sectors should be eligible to obtain C-Type finance and eligibility should be limited to corporate entities belonging to carbon-intensive or high environmental impact sectors. The reason for these limitations is simple. Any corporate entity wishing to reduce or change the climate or environmental impacts of individual business activities can use A-Type transition finance. Also, for corporate entities that cannot be considered overall as carbon-intensive or possessing high environmental impacts as a whole but have certain carbon-intensive projects or activities in their assets, regular finance or A-Type transition finance could be used to reduce carbon emissions and enhance environmental sustainability.
- 4) We classify basic taxonomy for both A-Type and C-Type. For A-Type brown taxonomy, we showed 16 different projects, such as coal-fired power generation plant, Automobiles, Building and housing, Ships and Aircraft and so on. For C-Type taxonomy, we defined 9 industries, such as Electricity power companies, Energy developer for fossil fuel, Iron and steel manufacturing and so on.
- 5) Although we recommend two type transition finance, we indicate to avoid double counting the outcomes of activities undertaking with C-Type finance and A-Type finance or normal green finance. For example, take the case of a company that had used A-type finance to reduce carbon emissions of particular assets by issuing bonds for the purpose of financing a renewable energy project or switching from coal to gas-fired technology in a power plant, and that had succeeded in reducing company-wide carbon emissions. If these KPI improvements were not excluded from the outcomes of the newly acquired C-type transition finance, there is a danger that double counting would occur. An external verifier should thus be used to assess whether the transition finance

scheme includes such dangers in the pre-assessment procedure.

- 6) Transition finance is divided into the evaluation of the planning stages before the transition and the evaluation of the implementation stage after the implementation of the transition financing. At the planning stage, pre- evaluations are almost same as existing green bonds principles, but in post-transition procedure it should be needed additional works such as monitoring whole transition process, evaluating the results of transition and whether transitional activities by issuers or borrowers are appropriate and so on. Therefore, we recommend roles of external review should be also divided into planning phase and implementation ones to avoid the conflict of interest.

You can access to full document of final version.

<http://rief-jp.org/>



**The Research Institute for Environmental Finance (RIEF)**

Non-profit organization to work for prevailing information on green & sustainable finance mainly in Japan. Main member of RIEF are financial institutes, business entities, trade-organization and individuals interested in sustainability and ESG fields.

Address:1-9-5-303, Tensho-Ochanomizu building, Kanda-Awaji-cho, Chiyoda-ku, Tokyo,  
Japan 101-0063

Tel +81-3-6206-6630

Email [green@rief-jp.org](mailto:green@rief-jp.org)

<http://rief-jp.org/>