Consultation on entity-level Transition Finance Guidelines

Draft Transition Finance Guidelines and Implementation handbook issued by the Transition Finance Council

Comments from ACCA

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OVERALL COMMENTS

ACCA welcomes the opportunity to respond to the consultation from the Transition Finance Council (TFC) on the draft *Transition Finance Guidelines* (the Guidelines) and *Transition Finance Implementation Handbook* (the Handbook). We commend the TFC for its leadership in seeking to develop a coherent, credible and practical framework to support the growth of transition finance in the UK and beyond.

Transition finance is essential to delivering the UK's Modern Industrial Strategy and enabling an economy-wide transition to a low-carbon, resource-efficient and resilient economy. It also has an important role to play in supporting the UK Government's *Financial Services Growth and Competitiveness Strategy*, including the ambition to maintain the UK's position as a global leader in sustainable finance. Transition finance is particularly critical for supporting real-economy entities - especially those in emissions-intensive or hard-to-abate sectors - where decarbonisation pathways may require sustained investment over time and the entities would be ineligible for green finance.

ACCA supports the objectives of the TFC and its work to improve confidence and consistency in the transition finance market. Greater transparency in reporting and a more consistent approach to transition finance are essential to delivering the roadmap and recommendations of the Transition Finance Market Review and to supporting the UK's ambition to position itself as a leading centre for raising and deploying transition finance. We believe that the current proliferation of taxonomies, labels, and transition finance approaches risks undermining trust and inhibiting the efficient allocation of capital. Greater coherence, interoperability and international alignment is vital to mobilising the scale of finance required to reach net zero. In this context, we strongly support the Council's emphasis on principles-based guidance that can be applied flexibly across sectors, jurisdictions and entity types, while remaining grounded in science and credible transition outcomes.
ACCA emphasises that sustainability-related information should be fully connected with core business activities and strategy, recognising that material sustainability risks and opportunities must be integrated with governance, strategy, risk management and performance measurement to support decision-making, resilience and value creation. We believe that for this to happen, widespread application of integrated thinking by entities[1] as well as integrative thinking by finance professionals[2] are necessary, where information connections lead to quality decision-making and sustainable value creation[3].

We particularly welcome the following aspects of the Guidelines and Handbook:

- **A common, principles-based framework for transition finance.**
  The use of a shared, internationally applicable set of guidelines should help reduce fragmentation and prevent entities seeking or servicing transition finance from having to navigate multiple, potentially conflicting scopes, definitions and expectations. We commend the care taken to align the Guidelines with existing international frameworks and standards, including those relating to transition planning, climate disclosure and sustainability reporting. ACCA encourages the TFC to continue to prioritise alignment and interoperability, as the proliferation of competing labels or approaches risks confusing market participants and slowing the growth of transition finance rather than accelerating it. We also strongly support a 'comply or explain' approach rather than prescriptive requirements without any

[1] Invisible threads: communicating integrated thinking | ACCA Global

[2] Integrative thinking: the guide to becoming a value-adding CFO | ACCA Global

[3] Making information connections for sustainable value creation | ACCA Global

flexibility or consideration of proportionality - this is especially important given the current maturity of the transition finance market.

- **A strong focus on credibility and action**
  ACCA has consistently highlighted that credible transition planning is a cornerstone of effective climate action and capital allocation. We welcome the emphasis on assessing transition planning in relation to the ambition, strategic coherence, governance, and evidence of implementation and impact. The ability to assess the credibility of transition planning is essential if transition finance is to deliver real-world emissions reductions and avoid greenwashing.

- **The provision of an implementation-focused Handbook.**
  The inclusion of a practical Handbook alongside the Guidelines is a significant strength of the TFC's approach. Translating high-level guidelines into operational decision-making remains a key challenge for preparers of information, finance providers and advisers. The Handbook's practical guidance and illustrative case studies should support more consistent application of the Guidelines across different sectors and organisational contexts.

- **Integration of nature and just transition considerations.**
  ACCA strongly supports the acknowledgement of nature and just transition considerations within the Guidelines and Handbook. Climate transition planning cannot be treated in isolation from biodiversity loss, ecosystem degradation and social impacts. Integrating nature alongside climate reflects the reality that resilient economic activity depends on healthy natural systems, while attention to just transition considerations is essential to maintaining social licence and long-term economic stability. We believe that integrated thinking and reporting – including the connection of material sustainability-related risks and opportunities – is critical for informed decision-making and sustainable value creation.

Overall, ACCA believes the draft Guidelines and Handbook represent an important step towards building a more credible, scalable and trusted transition finance market. We look forward to continued engagement with the TFC as the framework is refined and implemented, and we would welcome further dialogue on how accountants can support high-quality transition planning and a well-functioning transition finance market.

SPECIFIC COMMENTS

Interoperability and Alignment
ACCA welcomes the strong emphasis placed on interoperability and alignment with existing sustainability disclosure standards and frameworks as well as transition finance initiatives within the Guidelines and Handbook. Given the already crowded landscape of transition finance definitions, taxonomies and labels, introducing additional approaches without clear alignment risks exacerbating fragmentation, increasing costs for market participants, and limiting adoption. We therefore encourage and strongly support the TFC to continue prioritising alignment with established and widely used international frameworks wherever possible.

International coherence is particularly important for multinational entities and their value chains, as well as for global capital markets. Consistent and interoperable approaches can help reduce reporting burdens, support decision-useful information for investors and lenders, and facilitate the efficient allocation of capital in support of global climate and sustainability objectives.

We recognise that sustainability disclosure and transition planning requirements are evolving rapidly across jurisdictions. In this context, we welcome the TFC's engagement with UK policy developments and regulators. ACCA has actively engaged in related UK policy processes, including responding to the Department for Energy Security and Net Zero (DESNZ) consultation on transition planning requirements, a copy of which can be found here. ACCA recognises the vital role that effective regulation plays in underpinning the UK's reputation as a trusted place to do business and in supporting market confidence, transparency and integrity. However, we also emphasise the importance of proportionate, well-designed regulatory frameworks that are capable of being implemented in practice. In the context of the TFC's work on the Guidelines and Handbook, careful consideration should be given to avoiding unnecessary complexity, duplication and cost, and to ensuring that guidance supports consistent, decision-useful application of transition finance requirements without imposing undue additional burdens on firms.

We also want to further emphasise the importance of coherence across the wider sustainable finance ecosystem. The Guidelines and Handbook should continue to reflect, and be complementary to, the work of existing regulations and requirements such as the UK Sustainability Disclosure Requirements (SDR) and the EU Sustainable Finance Disclosure Regulation (SFDR) as well as voluntary market standards and certifications from bodies such as ICMA, the Loan Market Association (LMA) and the Climate Bonds Initiative (CBI). This coherence will help ensure that different parts of the market reinforce one another and build confidence, rather than create inconsistent expectations for issuers, borrowers and financial institutions.

Consideration of SMEs and EMDEs

ACCA welcomes the TFC's recognition of the role of SMEs and entities in emerging market and developing economies (EMDEs). SMEs are critical to delivering the net zero transition, yet they often lack the resources and capabilities to meet complex sustainability-related information requirements. In practice, SMEs are frequently subject to multiple sustainability-related information requests from counterparties across their value chains, often issued in varying formats and on a retrospective basis, which further exacerbates the challenges they face in providing consistent and reliable sustainability-related information. Supporting SME participation will therefore be essential to ensuring both their long-term resilience and their contribution to net zero objectives. Similarly, entities operating in EMDEs often face distinct regulatory, economic and market conditions that may not align neatly with UK or other international frameworks. Recognising these differences is important to avoid unintended barriers to participation and to support an inclusive global transition. We therefore encourage the TFC to continue to apply a proportionate and pragmatic approach for SMEs and EMDEs as the Guidelines are further developed.

We also recommend that the TFC provides greater clarity on the intended scope of application of the Guidelines and Handbook in relation to SMEs and EMDEs. The Executive Summary of the Guidelines indicates that they apply to general-purpose capital provided to listed, large and medium-sized entities, while the Handbook notes that the Guidelines are designed to be globally operable and to consider entities of different sizes, including SMEs, as well as entities in EMDEs. While these statements are not necessarily inconsistent, they could benefit from clearer articulation of how SMEs and EMDE-based entities are expected to engage with the framework in practice.

ACCA supports the use of proportionate mechanisms - such as phased implementation, gating, grace periods and essential criteria - to enable participation while maintaining the credibility of transition finance, especially if SMEs and EMDE-based entities are within scope. These approaches appear to be well suited to balancing inclusivity with robustness.

In addition, ACCA suggests that the Guidelines could benefit from greater clarity on what is meant by large and medium-sized entities, recognising that size thresholds vary across jurisdictions and that the use of a standard definition and additional explanation (if required) could support consistent interpretation and application.

Alignment with Market Realities
ACCA supports a pragmatic approach that is aligned with market realities and commends the use of consultations which should help identify practical implementation challenges and assess market readiness.

We recognise the importance of balancing current market maturity with the need for an robust framework that drives continuous improvement. In this context, we acknowledge the Council's consideration of earlier feedback on the challenges of mandating Scope 3 emissions reduction targets, given current limitations in data availability and capability. However, as the market continues to evolve, ACCA recommends that the TFC commit to periodically reviewing and updating the Guidelines to ensure they remain appropriately challenging and credible. As sustainability practices and reporting capabilities mature, expectations should evolve accordingly so that the transition finance label continues to carry meaningful weight.

Focus on Adaptation
Climate adaptation is an essential, but often under-prioritised, component of effective transition planning. While climate mitigation understandably receives significant attention, adapting to physical climate risks is critical for business continuity and long-term resilience. ACCA's *Global Economic Conditions Survey 2023* found that around two-thirds of respondents believed their organisations were not investing sufficiently in climate adaptation, with only one-third planning to increase spending despite rising climate-related disruptions. The survey also highlights region-specific risks, including power outages linked to extreme weather in Africa and employee health and absenteeism impacts in North America. These findings underscore the importance of embedding adaptation and physical risk management within transition planning, particularly as climate impacts intensify. We recognise that the Guidelines reference the need to consider physical climate risks; however, ACCA believes there is scope to further strengthen the prominence and clarity of expectations around adaptation. Clearer and more consistent expectations for physical risk assessment, resilience investment and business continuity planning would help support more systematic progress across sectors and geographies. Strengthening this aspect of the Guidelines would help ensure that transition finance supports not only emissions reduction but also the resilience of the economy.

Importance of Understanding the Financial Implications
ACCA believes that transition planning should be fully integrated into business models, strategic objectives and investment decisions, the financial implications (both costs and benefits) should be understood. We recognise that many entities currently find it challenging to estimate the financial implications of their transition planning; however, we believe that this alignment is a critical indicator of credibility and the likelihood that emissions reductions will be delivered. Without adequate budgeting, transition commitments are unlikely to be realised. In this context, ACCA would caution against treating the recommendation that *"the entity has budgeted for key implementation actions, either through planned capital or operating expenditure or reflected in expected cash flows"* as non-essential. If current market maturity means this expectation cannot yet be applied universally, we recommend that it be clearly identified as a priority area for future strengthening of the Guidelines as capabilities and practices continue to develop.

Use of Labelling
ACCA notes the statement in the Handbook that *"users may wish to leverage the Guidelines to voluntarily apply a transition label."* It was not clear to us from the current drafting whether use of

such a label would be subject to independent, third-party verification or other forms of oversight. ACCA recommends that appropriate checks and governance mechanisms are put in place for entities wishing to use or award the label, as the absence of such safeguards could lead to inconsistent or inappropriate use, undermining market confidence and diminishing the credibility and value of the label. There should also be a mechanism by which the label can be withdrawn if an entity no longer meets the criteria.