

Transition Finance Market Review provides blueprint for unlocking transition finance in the UK and globally

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In this blog post and accompanying video, we explore the final recommendations of the Transition Finance Market Review and what it means for the development of an effective and credible transition finance market in the UK and globally.

What is the TFMR?

The Transition Finance Market Review (TFMR) is an independent market-led review commissioned by the UK Treasury and the Department for Energy Security and Net Zero and hosted by the City of London Corporation.

The Review was led by [Vanessa Havard-Williams](#), former co-head of Linklaters' environment and climate change practice, and a member of the UK Transition Plan Taskforce (TPT) delivery group.

The TFMR launched a call for evidence in March 2024 to explore the barriers to scaling transition finance and how the UK could become a global hub for funding the global net zero transition (see our [previous blog post](#)).

TFMR report – key takeaways

On 17 October 2024, the TFMR published a [report](#) with its final recommendations on scaling an effective and credible transition finance market.

The following are some of the key takeaways:

- The TFMR provides a **framework** to scale the market for transition finance in the UK and globally.
- Companies and governments will require credible transition finance to deliver on their decarbonisation commitments and meet Paris Agreement goals.
- Transition financenot only helps **meet net zero targets** but also opens up **substantial growth opportunities**.
 - The UK will require an estimated £50-60 billion annually through the late 2020s and 2030s to meet its net zero objectives.

- While progress has been made through decarbonising the power sector, further investment is crucial in sectors like industry, transport, and agriculture.
- McKinsey estimates the net zero transition could unlock £1 trillion in business opportunities for the UK by 2030.
- BloombergNEF estimates that annual investment must rise to \$6.7 trillion per year globally to match their economic transition scenario.
- If done correctly, this will present significant opportunities for companies and investors that find themselves on the front foot.
- The **UK** is uniquely positioned to become a **leading hub** for the transition finance market and use its leadership position for financial and professional services to accelerate the global transition.
 - The Review’s recommendations outline an ambitious roadmap to establish the UK as a global transition finance hub, detailing the necessary steps for government, regulators and the market.
 - Transition finance is necessary to deliver on the UK government’s “growth” and “clean power” missions (see our [previous briefing](#) on the new government’s green agenda).
- To scale transition finance in support of a sustainable and resilient future, investment in transition needs to be made more attractive and some technologies need policy, incentives and catalytic capital to become commercially competitive.
- The opportunity is **timebound**. Failing to act now risks losing ground to other markets that are rapidly building capacity in transition finance.
- The TFMR puts forward a series of **recommendations** on how to unlock the required levels of finance by creating the right policies, pathways and signals for investment:
 - The Review’s findings are organised around **three core pillars** essential for scaling a robust transition finance market:
 - establishing *clarity and credibility*;
 - scaling finance for transition *activities* (i.e. making transition finance solutions commercially viable at asset or project level); and
 - scaling finance for transitioning *entities* (i.e. so that transition finance is available by reference to entity level performance without ringfencing to specific activities).
 - In order to create an effective transition finance market, we need a commonly understood **definition of transition finance** – which is clear but not overly prescriptive and it needs to cover all sectors and all forms of financing.
 - Scaling transition finance will require a greater level of granularity in national **sectoral transition pathways**, greater collaboration between policy makers, industry, finance and civil society, and a greater level of coordination across government. The Review recommends a commitment to restoring the [Net Zero Council](#) to deliver this granularity.
 - Reaching commercial maturity for emerging transition activities will require effective policy, catalytic public capital, and public-private innovation. The Review recommends establishing a **Transition Finance Lab** to develop and test targeted financial solutions to tackle these challenges.

- To move towards general-purpose transition finance predicated on credible transition plans, the Review recommends **mandatory Transition Plan Taskforce-aligned transition plan development and disclosure** and build out of the supporting data, assessment, verification and assurance of transition plans.
- The Review proposes a **Transition Finance Classification System** and **Guidelines for Credible Transition Finance** that are underpinned by a principles-based approach.
- The Review recommends the creation of a **Transition Finance Council** (housed within the City of London Corporation) to ensure delivery of the TFMR's recommendations, as well as supporting capacity building, collaboration, and coordination.

Barriers to transition finance

The Review identified **five key barriers** to accessing and deploying transition finance in the UK, which are broadly applicable to the global market:

- **Lack of long-term regulatory and policy certainty** with regard to real economy transition. Ultimately, finance will follow incentives in the real economy, as that is what drives the perception of future returns. Transition finance will struggle to scale if real economy transition is not incentivised over the status quo. Although there are policy documents covering much of the relevant ground, there is a lack of clear sectoral decarbonisation pathways and whole-of-economy national transition planning in the UK to support investment. This is also the case in many other jurisdictions.
- **Mismatch in the risk-return profile required by capital providers and the investible opportunities.** The transition will rely on emerging technologies, which have a different risk-return profile to incumbents. Bridging solutions are needed to connect the deepest pools of capital with key transition technologies. This barrier can be particularly acute in emerging markets and developing economies (EMDEs).
- Challenges with assessing whether financing a particular activity or entity will have a **credible decarbonisation impact**. There are also related difficulties in preparing and assessing private sector transition plans.
- Limited provision for “transition” activities and strategies in the UK’s sustainable finance regulatory regimes. This is also the case in other jurisdictions, where sustainable finance regulation generally focusses on provisions for **green** rather than **transition** activities.
- Risk of actual **greenwashing** and risk of greenwashing allegations and **reputational damage** for providing finance to certain transition activities and transitioning entities. This is a particularly significant problem when it comes to financing activities or entities aimed at decarbonising high-emitting sectors.

What is transition finance?

The Review concludes that in order to create an effective transition finance market, we need a commonly understood definition of transition finance.

This needs to be **clear but not overly prescriptive** (for example, to cater for changes in science, technology, and decarbonisation pathways) and it needs to cover **all sectors** and **all forms of financing**. The one-size-fits-all approach to the transition will not work globally – the transition to net zero will vary by entity, sector and country, and it will also vary over time.

As mentioned above, one of the key barriers to an effective transition finance market is that sustainable finance regulation so far has tended to focus on “**green**” rather than “**transition**” activities, and the fear of actual greenwashing or greenwash allegations and reputational damage associated with funding activities/entities in high-emitting sectors are particularly acute. However, it is precisely the high-emitting sectors (such as heavy industrial sectors, energy, transport, agriculture and the built environment) that urgently need transition finance to decarbonise.

Which is why the Review has adopted a **broad definition of transition finance**:

“Transition finance, in the broadest sense, incorporates the financial flows, products and services that facilitate an economy-wide transition to net zero consistent with the Paris Agreement.”

Basically, transition finance is the financing of the transition of the whole economy to net zero (though the Review excludes discussion of financing of well-scaled renewable power on the basis this is already well understood). It will require **vast amounts of capital** (trillions rather than billions) globally from both the **public and private sectors** – which can take **various forms**, both to fund **activities** that support the transition and to fund **entities** that are transitioning to net zero.

Transition Finance Classification System and Guidelines for Credible Transition Finance

The Review proposes a principles-based **Transition Finance Classification System (TFCS)**, along with **Guidelines for Credible Transition Finance**.

The Review draws on the work that the Glasgow Financial Alliance for Net Zero (GFANZ) has already done to articulate four key financing strategies that define transition finance, and goes on to consider the four strategies at an **activity level** and at an **entity level**.

The four key transition financing strategies developed by GFANZ are those which finance or enable:

- *Climate Solutions* - entities and activities that develop and scale;
- *Aligned* - entities that are already aligned to a 1.5C degrees pathway;
- *Aligning* - entities committed to transitioning in line with 1.5C degrees-aligned pathways; and
- *Managed Phaseout* – the accelerated managed phaseout of high-emitting physical assets.

The Review includes **non-exhaustive examples** of eligible activities and entities. However, it notes that the TFCS is not intended to replicate a taxonomy-style classification system and is illustrative.

The Review found that there is currently no widely accepted common approach to support financial institutions in the development of their transition finance frameworks. Stakeholders indicated that they would value having a common, principles-based **voluntary** framework to support institutions in the development of their own transition finance frameworks.

The proposed **Guidelines for Credible Transition Finance** provide steps towards a common framework for assessing when financing an activity or entity credibly amounts to transition finance, which could be applied across various financing types and jurisdictions, and fit into available standards and policies, to provide additional confidence to the market. The Review recommends that the Transition Finance Council continues to engage stakeholders on the Guidelines to finalise them for use by the market, potentially under trade association or industry-led initiatives.

The need for credibility and public/private sector collaboration

Fundamental to the Review's approach is the importance of demonstrating the **credibility and integrity** of transition finance and the contribution that credible transition plans can make.

One of the things the TFMR considered is how the **UK Transition Planning Taskforce (TPT) disclosure framework** (which was launched in October 2023, see our [previous briefing](#)) and other standards can be used to build confidence in the market by showing this can be done with credibility and integrity and what core transition principles (such as transition plan disclosures, science-based targets, and capital allocation plans) may be necessary for a plan or strategy to be credible.

The Review concludes that **credible and comparable transition planning** will play a critical role in underpinning the credibility of the transition finance market.

The TFMR recommends that:

- The UK government should publish (in conjunction with regulators) a **forward-looking roadmap**, outlining how and when it will implement transition plan disclosure requirements aligned with the TPT Disclosure Framework for the largest listed companies, private companies and financial institutions. In their manifesto, the new Labour government outlined a commitment to mandate UK-regulated financial institutions and FTSE 100 companies “to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement” (see our [previous briefing](#)).
- The government should consult in broad terms on what “**1.5°C alignment**” could mean, and which sectoral approaches and existing mechanisms will inform this.

- The government should explore different means of **incentivising** the disclosure of high-quality forward-looking data in transition plans.
- Companies and financial institutions should **engage** with the TPT Disclosure Framework and (where relevant) sectoral guidance produced by the TPT, as regulatory requirements are developed and embedded.
- Jurisdictions across the globe that are in the process of implementing the IFRS Sustainability Disclosure Standards should use the TPT disclosure-related materials where possible. The International Sustainability Standards Board (ISSB) announced in June 2024 that it has assumed responsibility for the UK TPT materials, to help streamline global transition planning.

Transition planning is becoming a core part of corporate strategy and companies will need to produce and implement plans strategically and not mistake them for a tick-box disclosure exercise. Financial institutions and funds are already considering transition strategy as part of due diligence and within credit and pricing conversations. For more information on the UK TPT materials and transition planning in general, see our [transition plan materials](#).

The Review concludes that **collaboration** is crucial, and that government action must be matched by the private sector, through widespread, credible transition planning. The Review's engagement with companies and financial and professional services firms showed **untapped enthusiasm** to seize the opportunity afforded by the transition. The TFMR recommendations are intended to offer a **roadmap** to realise that potential and to tackle the current slow progress caused by fears of making mistakes that could result in litigation or reputational damage. The TFMR's call to action for the UK government and industry is to champion and implement these recommendations.

For the UK, leading the growth of transition finance presents a **major opportunity**. However, the Review cautions that, to succeed internationally, the UK will need to focus on credibility and interoperability and that "bold action" will be needed now rather than later.