Climate Transition Finance Handbook

Related questions

9 December 2020

1. Why were dedicated "Transition Bond Principles" not published, and this Handbook provided instead?

There are existing instruments that can be utilised for issuers looking to align their financing strategy to their climate transition strategy and decarbonisation trajectory. The Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines already provides guidance for issuers looking to allocate capital to dedicated use of proceeds, while the Sustainability-Linked Bond Principles provides guidance for issuers seeking to incentivise the achievement of their ESG objectives. This handbook acts as additional guidance for issuers seeking to utilise either Use of Proceeds Bonds or Sustainability-Linked Bonds towards the achievement of their climate transition strategy.

2. What scenarios should an issuer refer to when setting its decarbonisation pathway?

An issuer can consider the use of a wide variety of currently available scenario providers. For example, the Task Force on Climate-related Financial Disclosures (TCFD) provides a list of providers and possible scenarios in its Technical Supplement[1], and the Principles for Responsible Investment also provides a registry of publicly available climate scenario tools[2]. While a range of scenarios can be useful for scenario planning, in the context of setting a transition strategy, a decarbonisation pathway should have the objective of limiting climate change ideally to 1.5°C and, at the very least, to well below 2°C. We note that prior to the update of the IEA's World Energy Outlook in October 2020 the most common scenario utilised was IEA SDS[3].

3. What are the social externalities referred to under Element One? How are social issues linked to climate transition?

It can be expected that, in order for the climate transition to align with the goals of the Paris Agreement, there may be material impacts on employees in greenhouse gas intensive sectors of the economy. For those sectors, understanding how an issuer is looking to incorporate the elements of a "Just Transition" into its overall decarbonisation strategy is therefore also considered relevant. A Just Transition seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers or consumers. The Just Transition concept links to a number of the Sustainable Development Goals, explicitly drawing together SDGs 13 – climate action, 10 – reduced inequalities, 8 – decent work and economic growth, and 7 - affordable and clean energy. See Disclosure 4 of the Handbook.

4. How does this Handbook interface with the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles?

The handbook can be utilised by any issuer seeking to demonstrate how its green, social, sustainability, or sustainability-linked bonds fit into its overall transition strategy. It is expected that any issuer in greenhouse gas intensive sectors seeking to issue self-labelled climate finance transition instruments (be they Use of Proceeds Bonds or Sustainability-Linked Bonds) would look to incorporate each of the disclosures outlined in the Handbook. The suggested disclosures can be detailed in the first section of an issuers Framework or alternatively on the issuer's website.

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[1] Task Force on Climate-related Financial Disclosures, Technical Supplement, The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities. June 2017

[2] See: https://www.unpri.org/climate-change/directory-of-climate-scenario-tools/3606.article

[3] See: https://www.iea.org/reports/world-energy-model/sustainable-development-scenario

Additionally, if an external review is obtained, the reviewer is also recommended to opine on the alignment of the issuer's level of disclosure with the guidance provided in the Handbook.

5. How can issuers from hard-to-abate sectors use this Handbook to issue a Use of Proceeds or Sustainability-Linked Bond where the proceeds are funding capex to aid their climate transition?

This Handbook highlights importance of an issuer's overall climate transition strategy, which will contain multiple levers, to achieve an issuer's overall decarbonisation trajectory. These levers can include capex, opex (incl. R&D), M&A, decommissioning, and governance. It is the net result from the sum of each of these levers that will drive an issuer's overall outcome. Therefore, for a Use of Proceed or Sustainability-Linked Bond issuance, in addition to disclosure on each of the pillars of the relevant Principles, the issuer would be recommended to provide disclosures aligned to each of the four elements of the Handbook, in order to credibly articulate how the identified use of proceeds fits into the achievement of the overall strategy. This Handbook aims to provide guidance on both the type and level of disclosures required.

6. Can these guidelines be applied to support issuers at the beginning of their transition journey? i.e. issuers not yet able to claim Paris Agreement alignment but taking ambitious steps in that direction?

This Handbook provides voluntary guidelines on the breadth and depth of disclosures an issuer should make to investors when issuing Use of Proceeds Bonds or Sustainability-Linked Bonds related to their climate transition.

We recognise that issuers are at different stages of their transition journey. Issuers should align to the Handbook's guidelines on a best-efforts basis, disclosing how they are progressing against each of the recommended elements within their respective Frameworks. Where applicable, an issuer may choose to signpost future plans for further developing a transition strategy. In addition, any impact reporting provided should provide an update on their progress.

7. How does this Handbook interact with the EU Taxonomy and the Climate Bonds Initiative White Paper on Financing Credible Transitions[4]

This Handbook does not seek to define either dedicated use-of-proceeds nor business activities that could be considered "Transition". Instead, it provides recommended disclosures to evidence a credible transition strategy, which could be used to accompany either a Use of Proceeds or Sustainability-Linked instrument.

The EU Taxonomy, the CBI White Paper, as well as other definitional guiderails available and/or under development, provide frameworks for defining transition.

8. Does this Handbook open the door for high-emitting industries to engage the ESG debt capital markets?

The Climate Transition Finance Working Group found that issuers from carbon-intensive were hesitant to access the Green Bond market, despite their importance to the climate transition. The Handbook was developed to provide guidance to issuers on how they might credibly issue Use of Proceeds or Sustainability-Linked Bonds towards the achievement of their emission reduction goals and climate transition strategy.

4 https://www.climatebonds.net/transition-finance/fin-credible-transitions

9. Could Oil and Gas companies issue green labelled bonds based on this guidance?

The Handbook is sector agnostic and provides guidance for issuers on the disclosures recommended to articulate to investors their climate transition strategy and decarbonisation pathway. This additional disclosure provides context to support the issuance of Use of Proceeds Bonds or Sustainability-Linked Bonds. Issuers should consider the relevance of the recommended elements of disclosure, particularly with regards to Element 1: Issuer's climate transition strategy and governance and Element 3: Science-based targets and pathways.

10. How would this guidance be applied by financial institutions who may not necessarily have a transition plan of their own but may be involved in financing transitions made by clients they provide financial services to?

Each of the recommendations in the Handbook can be applied by financiers extending debt to underlying projects. In such cases, the financier should articulate the how the underlying projects themselves fit into the project owner's climate transition objectives and strategy.

11. Are science-based targets the same as the Nationally Determined Contributions as proposed by the parties to the Paris Agreement?

Not necessarily. Nationally Determined Contributions (NDC) represent a country's individual commitments under the Paris Agreement. Science based targets, such as the approach set out by the Science Based Targets Initiative (SBTi)[5], seek to provide guidance to companies and other economic actors on the extent and speed by which they need to reduce their greenhouse gas emissions to meet and/or exceed the objectives of the Paris Agreement. As it stands today, the sum of each countries' NDCs do not meet the 1.5°C or well below 2°C target of the Paris Agreement. Element 3 of the Handbook recommends, as part of a credible transition proposition, that issuers reference appropriate, sector-specific decarbonisation trajectories in communicating their strategy in this area. We note that an aim to align the business plans with a '1.5 degree' Celsius trajectory will be perceived as most credible to an increasing proportion of market participants. However, reference to NDCs could be made as part of a transition strategy, particularly where issuers are at the beginning of their transition journey.

12. Can this Handbook be used to issue a Transition Bond?

While issuers may choose to market instruments using various thematic labels, this Handbook seeks to provide clear guidance and common expectations to capital markets participants when raising funds in debt markets for climate transition-related purposes, whether this be in the format of (1) Use of Proceeds instruments, defined as those aligned to the Green and Social Bond Principles or Sustainability Bond Guidelines or (2) General Corporate Purpose instruments aligned to the Sustainability-Linked Bond Principles. Issuers wishing to label financing instruments with a climate 'transition' label, may consider referencing this guidance in connection with the issuance as the Climate Transition Finance Handbook 2020 and using the CTF logo.

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