G20 TRANSITION FINANCE FRAMEWORK (TFF)

WHAT IS TRANSITION FINANCE?

Transition finance refers to financial services supporting the whole-of-economy transition, in the context of the Sustainable Development Goals (SDGs), towards lower and net-zero emissions and climate resilience, in a way aligned with the goals of the Paris Agreement.

TRANSITION FINANCE FRAMEWORK GOAL

To shape policies and financial services to support the climate-related transition, will eventually expand to cover other sustainability goals like nature & biodiversity, pollution control or circular economy.

Adoption is voluntary, can be phased in, and is supported by international capacity-building.

22 PRINCIPLES ACROSS 5 PILLARS

PILLAR 1 • Approaches to Identification of Transitional Activities and Investments Should

1 **Implement a taxonomy, principles, or another method** to help financial institutions and firms identify transition activities and investments, lowering barriers, costs, and risks of "transition-washing".

2 **Ensure that the identification of transition activities and investments** is based on transparent, credible, comparable, accountable, and timebound climate goals aligned with the Paris Agreement.

3 **Be applicable to potential use cases** at the project, entity, industry, and aggregate levels.

4 **Offer guidelines for verifying transition activities and investments**, such as transparency measures and independent checks.

5 **Stay adaptive** to evolving science, market developments, technology, policies, and developmental priorities.

6 **Include strategies for an orderly, just and affordable transition**, minimizing negative impacts on jobs, communities, and other Sustainable Development Goals (SDGs), while maintaining energy security and price stability.

7 **Promote cross-border compatibility** by ensuring approaches are comparable and interoperable across jurisdictions, in line with G20 Sustainable Finance Roadmap.

PILLAR 2 • Reporting of Information on Transition Activities and Investments

8 **Disclose current transition plans** featuring credible, science-based interim and long-term goals with timelines.

9 **Regularly report progress**, including mitigation and adaptation goals, using current scientific methods.

10 **Disclose climate data**, including Scope 1 and 2 GHG emissions, and phase in Scope 3 data as it becomes possible. Report on underlying disclosure methods and reference policies.

11 **Disclose corporate governance structures that ensure proper implementation of transition activities or plans**, including risk management and due diligence processes.

12 **Disclose the methodologies for measuring transition progress and achievements**, and how these align with internationally recognized scenarios.

13 Depending on the financial instrument: **disclose either how proceeds from transition finance instruments are used, or relevant key performance indicators and specific performance targets**.

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PILLAR 3 • Transition-Related Financial Instruments

14 **Fundraisers should provide a detailed, science-based transition plan** aligned with the Paris Agreement, using a credible alignment approach to inform the market about their transition goals.

15 **Fundraisers should follow transition-related disclosure guidance and all relevant jurisdictional requirements** to ensure transparency of transition activities, targets, metrics, KPIs, and implementation of safeguards and corrective measures as needed.

16 **Transition finance instruments may include incentives or penalties** significant enough to encourage strong performance on GHG emission reduction and other climate or sustainability targets.

PILLAR 4 • Designing Policy Measures

17 **Policymakers should create policies and incentives** to boost the bankability of transition activities and attract private sector investment, considering national context and poverty eradication goals. Providing forward guidance can offer regulatory certainty to investors.

18 **International Organizations (IOs) and Multilateral Development Banks (MDBs) could be instrumental in offering technical assistance and long-term financing**, particularly to developing countries, for creating and executing policies that support transition projects.

19 **Promote international cooperation** to ensure transparency and understanding across approaches and exchange good practices and expertise.

PILLAR 5 • Assessing and Mitigating Negative Social and Economic Impact of Transition activities and Investments

20 **Encourage fundraisers to evaluate and mitigate** the potential socioeconomic impacts of their transition plans and to disclose mitigation measures or net positive impacts.

21 **Create demo cases of just transition.** International organizations should collaborate with the private sector to develop transition finance examples that include “just” elements and update the SFWG accordingly.

22 **Enhance collaboration** among government agencies, employers, workers, market regulators, academia, civil society, and the private sector to create a comprehensive strategy for mitigating negative economic and social implications.

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