



Transition finance: from concept to market practice

A practitioner's overview of the 2025 LMA Transition Loan Principles and ICMA Climate Transition Bond Guidelines

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KEY ASPECTS

- Growing significance of establishing financial labels to support the transition towards sustainability.
- The APLMA, LMA, and LSTA publish the "Guide to Transition Loans," introducing a dedicated label alongside existing green loans, social loans, and sustainability-linked loans. This label adheres to principles similar to those guiding green and social loans, with adjustments tailored specifically for transition purposes.
- ICMA introduces the "Climate Transition Bond Guidelines" as part of its suite of GSSS+ labels. These guidelines leverage the foundational features of green and social bonds, adapted to address transition-specific requirements.
- Both highlight the importance of placing labelled financial products in the context of credible transition plans and/or strategies.





Introduction

In a global context where regulatory and market pressure is pushing companies to accelerate their transition to low-carbon models, transition finance is an important tool in financing the decarbonization required to transition the economy to net zero and meet the Paris Agreement and the European Climate Law objectives (see [Post|EU sets binding climate target of 90% by 2040](#)). Beyond pure “green” activities, the real economy’s high-emitting and hard-to-abate sectors need substantial, near-term capital to invest in technologies, process changes and managed phase-outs that credibly reduce greenhouse gas emissions over time. The development of this market has been hampered by inconsistent definitions, limited common labelling, and a fragmented landscape of taxonomies and pathways. Without credible, widely understood labels and guidance, issuers and borrowers face uncertainty, investors struggle to assess integrity and ambition, and concerns about greenwashing persist. This is the gap recent market guidance seeks to fill, proving that after the “green agenda”, the “transition agenda” is at the forefront of sustainable finance. In October 2025, the LMA (with APLMA and LSTA) published its [Guide to Transition Loans](#) including an exposure draft of the Transition Loan Principles (“**TLP**”), establishing a dedicated use-of-proceeds framework for transition activities in the loan market and clarifying how sustainability-linked loans (“**SLLs**”) can be used as transition instruments at the entity level. In November 2025, ICMA published the [Climate Transition Bond Guidelines](#) (“**CTBG**”), introducing a standalone Climate Transition Bond (“**CTB**”) label for use-of-proceeds bonds that finance credible climate transition projects, and clarifying the complementary role of Sustainability-Linked Bonds (“**SLBs**”), in particular for high-emission issuers, as an entity-level instrument to attach forward-looking transition targets and milestones alongside CTBs. These documents aim to provide a degree of clarity on definitions, safeguards and disclosure, facilitating credible, scalable transition finance.

The LMA’s Guide to Transition Loans

Definition of transition finance.

The LMA distinguishes between “financing the transition” and “labelled transition finance”.

“Financing the transition” refers to the broad universe of lending and investment that supports a borrower’s decarbonization pathway irrespective of whether a financial instrument carries a sustainability label.

On the other hand, “labelled transition finance” refers to transactions that carry a transition label and meet defined criteria under the TLP (or the SLLPs, in the case of SLLs). The LMA frames “labelled transition finance” as transaction-level financing aimed at enabling decarbonization, particularly in high-emitting and hard-to-abate sectors, benchmarked against science and explicitly designed to avoid carbon lock-in.

For use-of-proceeds loans, three additional safeguards are central: (i) do no significant harm to other environmental and social objectives; (ii) an impact orientation that delivers substantial, time-bound emissions reductions; and (iii) the absence, in the local context, of technically and/or economically feasible low-carbon alternatives.

This definition recognizes that credible transition can involve interim investments, provided the trajectory to Paris-alignment is transparent, time-bound and embedded in the borrower’s broader transition strategy.

Key components of a credible transition strategy.

The Guide emphasizes the dual importance of entity-level credibility and asset/project-level integrity.

At entity level, credibility can be demonstrated through a published transition plan or planning process aligned with recognized frameworks, or through a robust set of indicators evidencing alignment with science-based pathways, sectoral benchmarks and governance practices. Core features include strategy and implementation levers; metrics and targets that prioritize absolute emissions reductions and material scopes; governance for



delivery and course-correction; and transparency on dependencies, enabling conditions and just transition considerations.

In the absence of a published plan, the LMA Guide points lenders and borrowers to evidence credibility via a coherent set of indicators, including science-based and sector-consistent targets, transition-aligned CapEx and financial plans, complete GHG inventories, clear governance and accountability, and transparent disclosure against recognized frameworks.

Labelled loans.

The guidance recognizes the role of both SLLs and use-of-proceeds loans as tools to finance the transition. The Guide positions SLLs as a core instrument for general corporate transition financing, where carefully selected KPIs and ambitious SPTs incentivize entity-level decarbonization beyond business-as-usual and regulatory requirements. KPIs and SPTs should reflect the Sustainability-Linked Loans Principles core requirements and be core, material, measurable, quantifiable and benchmarkable, with respect to KPIs, and ambitious in case of SPTs.

In parallel, the Transition Loan label fills the long-recognized “missing product” for asset/project-level use-of-proceeds financing that is not yet “green” but is demonstrably on a credible, time-bound pathway to net zero.

Transition Loan Principles Core components.

The TLP, similarly to green loan principles and social loan principles, defines a voluntary framework based on five core components that mirror the logic of green and social loan principles while tailoring eligibility and safeguards to transition:

- **Entity-Level Transition Strategy.** Borrowers evidence a credible transition strategy via a published plan or planning process and/or a robust set of indicators aligned with recognized transition frameworks and science-based pathways (see above). This ensures that financed projects reinforce, rather than substitute for, strategic decarbonization.
- **Use of Proceeds.** Use of Proceeds is at the cornerstone of the product. Proceeds are applied exclusively to eligible “Transition Projects,” including assets, investments and related CapEx/OpEx/R&D and phase-out expenditures that are not yet Paris-aligned but contribute meaningfully to real-economy decarbonization. Projects must be on a credible pathway toward net-zero with quantifiable, substantial and time-bound emissions reductions.
- **Process for Project Evaluation and Selection.** Borrowers articulate eligibility and governance, demonstrating alignment with relevant taxonomies, sectoral pathways and benchmarks; consistency with the borrower’s transition strategy and targets; the absence of feasible low-carbon alternatives in the relevant context; management of environmental and social risks (reflecting do-no-significant-harm and just transition principles); and an explicit carbon lock-in assessment featuring time-bound measures, sunset clauses or phase-out plans where interim investments are necessary.
- **Management of Proceeds.** Proceeds (or an equivalent amount) are tracked via a dedicated account or equivalent mechanisms, with appropriate internal controls and disclosure of the treatment of unallocated balances.
- **Reporting and Review.** Borrowers provide at least annual reporting on allocation and impact, including project descriptions, amounts allocated and expected/achieved emissions reductions, with disclosure of methodologies and assumptions. Forward-looking indicators are encouraged where feasible.

External review is encouraged pre-transaction (to assess alignment) and, where relevant, post-transaction (to confirm ongoing eligibility and consistency with the strategy).



ICMA's Climate Transition Bond Guidelines

Definition of CTBs and CT Projects.

CTBs are use-of-proceeds debt instruments specifically labeled to finance projects and activities that enable a credible and measurable climate transition. All or a meaningful portion of the bond proceeds are intended to finance or refinance climate transition projects ("**CT Projects**"). Where the CTBs are not exclusively allocated to CT Projects the remainder of the proceeds should be allocated to eligible Green Projects as defined in the Green Bonds Principles. Similarly to Green Bonds issued in alignment to the ICMA Green Bonds Principles, it is for the issuer to assess and design a methodology to classify the projects as CT Projects and the CTBs will follow the four core components and key recommendations as detailed below. The use of sustainable bonds to finance climate transition is not a novelty and ICMA clearly specifies that the creation of this new label does not entail an automatic reclassification of existing projects financed by other instruments.

CTB Guidelines Core components.

The four core components and two key recommendations. The Guidelines adapt the established architecture of the Principles to the specificities of transition:

- **Use of Proceeds.** CTBs require that funds be allocated to CT Projects that generate substantial and quantifiable GHG emission reductions, removals, or avoidance. This includes investments in carbon capture and storage technologies, fossil fuel substitution, early decommissioning of carbon-intensive assets, and energy efficiency improvements. Annex 1 provides for a non/exhaustive list of eligible CT Projects, on the understanding that these will evolve and might differ regionally.

In addition to the core eligibility criteria, issuers of CTBs are expected to uphold a series of safeguards to ensure the environmental integrity and credibility of their CT Projects. These include maintaining a robust issuer-level sustainability or climate transition strategy, with disclosures aligned on a best-efforts basis to the four key elements of the [Climate Transition Finance Handbook](#). Issuers should provide a thorough analysis demonstrating the technological or economic infeasibility of low-carbon alternatives, taking into account local context and referencing authoritative sector resources or cost-benefit analyses. Projects must be compatible with relevant official or market-based taxonomies, decarbonization pathways, and policy frameworks, as outlined in supporting annexes. Furthermore, issuers are required to demonstrate that their projects achieve substantial and quantifiable GHG emission reductions beyond business-as-usual, utilizing sector standards and best available technologies where feasible. A comprehensive assessment and mitigation of carbon lock-in risks is also necessary, including the use of sunset provisions and restrictions on interim performance categories for existing assets. For projects involving fossil fuel infrastructure, additional safeguards such as asset-level transition plans, decommissioning commitments, annual reporting on forward-looking metrics, and supporting investments to enable future low-carbon alternatives may be required to reinforce the credibility of the transition pathway.

- **Process for Project Evaluation and Selection.** Issuers disclose eligibility, safeguards, classification and any exclusions, explain alignment with relevant taxonomies, pathways and frameworks, and commit to periodic review and updating of eligibility criteria to reflect the evolving feasibility of low-carbon alternatives. Issuers also communicate processes to mitigate material adverse environmental or social impacts, including just transition, adaptation and nature considerations.
- **Management of Proceeds.** Net proceeds (or an equivalent amount) are credited to a sub-account or sub-portfolio and tracked via formal internal processes. Issuers disclose intended management of unallocated balances and are encouraged to have external verification of tracking and allocation.
- **Reporting.** Issuers publish at least annual allocation and impact reporting until full allocation (and thereafter upon material developments), listing financed projects, amounts, and expected/achieved impacts, with methodological transparency and reference to ICMA's Harmonised Framework for Impact Reporting where possible. ICMA will provide a summary template to aid comparability.



Key recommendations. ICMA further recommends use of (i) a CTB Framework explaining alignment with the four core components and summarising the issuer's overarching transition strategy aligned on a best-efforts basis with the CTFH; and (ii) external reviews, including pre-issuance assessments of alignment and post-issuance verification of internal tracking and allocation to eligible CT Projects.

Conclusion: alignment in substance, differentiation in application

Both frameworks converge on a common foundation for credible transition finance: a science-referenced definition of transition activities; rigorous use-of-proceeds discipline; robust governance for project selection, proceeds tracking and transparent, impact-oriented reporting; explicit consideration of carbon lock-in risks; and a requirement that financing be coherently embedded within an overarching, entity-level transition strategy. They each emphasise compatibility with recognised taxonomies, roadmaps and sectoral pathways, and encourage external review to bolster market confidence.

Their differences reflect market architecture and instrument use cases. The LMA's Guide addresses both entity-level SLLs (as a transition tool to drive corporate behaviour and outcomes) and a dedicated use-of-proceeds Transition Loan label tailored to lending practices, adding explicit do-no-significant-harm, feasibility and carbon lock-in assessments into project selection. ICMA's CTBG anchors to bond market conventions, integrates detailed safeguards and requires any non-CTB allocation to remain GBP-eligible. For issuers and borrowers in high-emitting sectors, these frameworks are complementary: CTBs provide a listed, market-wide instrument to finance credible CT Projects at scale, while Transition Loans offer bank-intermediated flexibility to finance discrete CapEx, OpEx, R&D and managed phase-outs, or to incentivise entity-level outcomes through SLLs. Used well, both labels can materially expand the investable universe for decarbonisation, reduce ambiguity and greenwashing risk through clearer definitions and safeguards, and support a pragmatic, time-bound pathway to net zero that reflects sectoral and regional realities. These labels offer significant strategic benefits, particularly for companies in hard-to-abate sectors. Unlike traditional green bonds, transition labels are specifically designed to finance transition projects, thereby providing a more tailored financial instrument for high-emission industries. Addressing the decarbonization of high-emitting sectors is fundamental to achieving the Paris Agreement goals, as pure green products may not fully cater to their unique challenges. The introduction of transition labels is a welcome development that will hopefully further propel the sustainability finance markets. Their effectiveness, however, will also depend on how these new labels respond to lenders and investors need to decarbonize their portfolios.



For additional information, please contact our [Knowledge and Innovation Group lawyers](#) or your regular contact person at Cuatrecasas.

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