

Transition Finance Follow-up Guidance ~ Guidance for an effective dialogue with fundraisers ~

Overview

June 2023

OBJECTIVE

To promote decarbonization in the real economy through transition finance, financial institutions should encourage fundraisers to develop and disclose credible transition strategies. Financiers, on the other hand, play a crucial role in supporting and facilitating the steady implementation of these strategies through dialogue with fundraisers. The follow-up guidance for financial institutions aims to enhance the credibility and effectiveness of transition finance. It ensures the steady implementation of transition strategies during post-execution of finance and contributes to enhancing corporate value. This guidance serves as a reference for financial institutions.



<THE RELATIONSHIP BETWEEN EXISTING TOOLS RELATED TO TRANSITION FINANCE AND THE FOLLOW – UP GUIDANCE>

Domestic guidelines* for green finance, sustainability-linked bonds or loans

Green Bond and Sustainability Linked Bond Guidelines / Green Loan and Sustainability Linked Loan Guidelines
(addresses fundraising process and information on individual instruments, which are not addressed in the Basic Guidelines.)

Basic guidelines for transition finance (Domestic)

Basic Guidelines on Climate Transition Finance
(4 elements: ①strategy & governance, ②materiality, ③science-based, ④transparency)

Pre-execution

Finance Execution

Post-execution

Reference for specific transition pathways for achieving carbon neutrality in high emitting sectors

Sectoral Technology Roadmap

Transition Finance Follow-up Guidance

* Guidelines were created in line with the international principles and guidelines (ex. Green Bond Principles, Transition Finance Handbook) for domestic users.

Key Points of the Guidance

RELATIONSHIP BETWEEN FINANCIERS & FUNDRAISERS

- The follow-up on transition finance involves a **trust-building dialogue between financiers and fundraisers for decarbonization funding** and should not be seen as an adversarial process.

EXPECTATIONS

- The target audience includes a wide range of financiers, with a particular emphasis on **bond investors**.
- To enhance the credibility and effectiveness of transition finance, financiers are expected to **actively communicate their follow-up achievements**.



DYNAMICS OF TRANSITION

- Corporate transitions aim for ambitious carbon neutrality goals based on the **best judgment at the time** and continues their efforts and investment on transition technologies which therefore requires **dynamic approach**.
- In the follow-up process, it is crucial to confirm that the current transition efforts are **the best possible given the circumstances**, including **changes in the business environment**.

GUIDANCE FOR ACTION

- Compiled a **checklist of key points** to be reviewed during the follow-up process.
- **Summarized the Sectoral Technology Roadmaps** in the appendices. It also addressed not only the individual sectors important concepts to understand the **relationships and dynamics of the sectors**.
- Included **practical methods for bond investors** to conduct the follow-up.

Overview of the Guidance

Chapters		Outline		
INTRODUCTION	Purpose	<ul style="list-style-type: none"> Focus on post-execution of transition finance to promote corporate transitions towards decarbonization and enhance the reliability and effectiveness of transition finance. Intended audience includes a wide range of financiers, with a particular emphasis on bond investors to highlight the importance and necessity of dialogues with issuers. Structure the content to be more practical for bond investors. 		
	Contents	<ul style="list-style-type: none"> Consists of two parts with appendices. Chapter 1 outlines the definition, objectives, and basic concepts of follow-up, while Chapter 2 addresses the follow-up process and key considerations along the flow of follow-up, providing case studies to illustrate the expected changes in the business environment for a concrete understanding of follow-up. 		
CH. 1	Definition & Basic Concept	<ul style="list-style-type: none"> Considering the dynamic nature of transition finance, it refers to the dialogue between fundraisers and financiers, considering post-execution environmental changes, to regularly discuss progress, future developments, etc. Corporate transition efforts towards achieving net-zero involve ongoing investments in transition technologies based on the best judgment at that particular time. Since transition efforts need to be approached dynamically, it is crucial in the follow-up process to confirm through dialogue with fundraisers that the current transition efforts are the best possible given the circumstances, considering changes in the business environment. Provide information and considerations for reference during the follow-up, including factors such as differences in assets, use of proceeds/general purpose instruments, and sectoral characteristics. 		
CH. 2	FINANCE EXECUTION shared understanding of the transition strategy	<ul style="list-style-type: none"> Achieve a shared understanding on the fundraisers' transition strategy and its presumptions such as sectoral characteristics. 		
	DURING FOLLOW-UP Dialogue on strategy, targets, decarbonization efforts, and future policies in relation to business environment changes	<ul style="list-style-type: none"> Provide key points for dialogue to assess the progress of fundraisers' efforts and foster a shared understanding on future policies and course of actions. The focus is on fundraisers' strategies, goals, and target activities, and ensuring fundraisers' appropriate disclosure of such achievements. Then, engage in dialogue to foster a shared understanding of past achievements and future efforts, considering changes in the business environment. Important considerations during follow-up include "competitive consideration in disclosure," "impacts of transient business environment changes," "pathways for reducing GHG emissions," and "focus on fundraisers' initiatives and future policy". 		
APPX.	Appendix	Appendix 1 List of Key Points for Preparatory and Follow-Up Activities	Appendix 2 Practical Guidelines of Follow-up Activities in Bond Investments	◆ CASE STUDY ◆ <ul style="list-style-type: none"> Case ① Impact of targets and political changes Case ② Impact of infrastructure development Case ③ Impact of emergence of new technologies Case ④ Impact of demand fluctuations Case ⑤ Impact of changes in business partners and their policies Case ⑥ Impact of natural disasters and other events Case ⑦ Impact accompanying changes in fundraisers' business
				Appendix 3 Summary of Sector Characteristics