Climate transition bonds: Clearer guidelines, unclear limits from ICMA

Cedric Rimaud & Christina Ng | November 2026

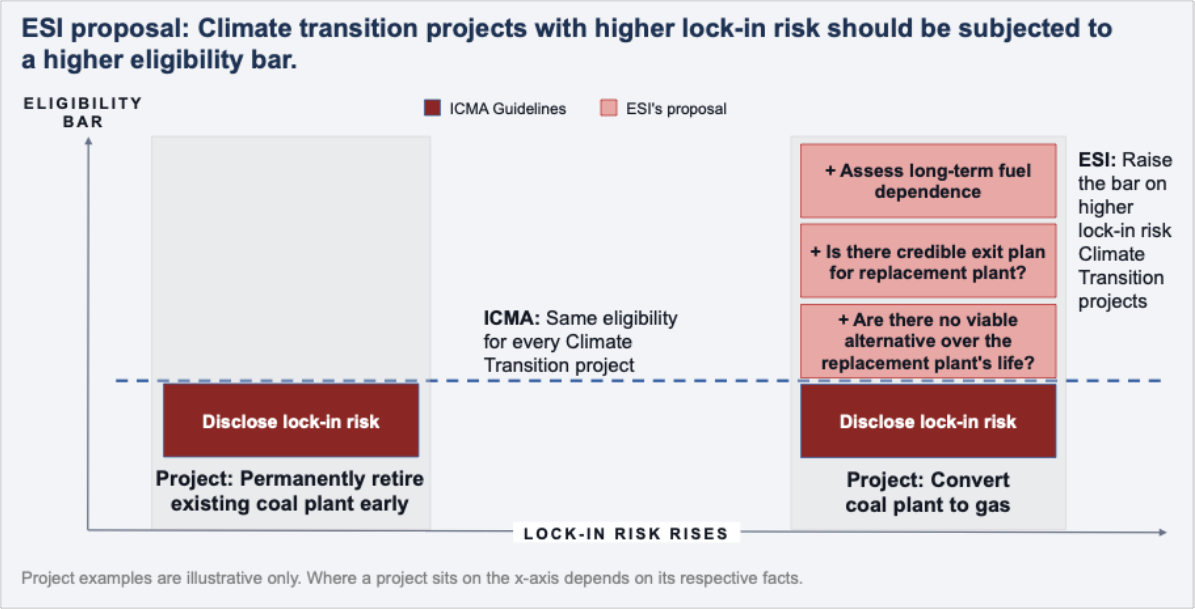
Key Takeaways

- ICMA's June 2026 FAQs clarify its Climate Transition Bond Guidelines in operational aspects, including the distinction between green and climate transition projects, the meaning of "best efforts", entity-level credibility assessment and the carbon lock-in assessment.
- Nevertheless, the FAQs confirm ICMA is basically taking an issuer-led model, leaving three important integrity questions unresolved: How far can discretion go before green and transition labels cease to be two distinct classifications? What minimum credibility conditions should apply at entity level? At what point should carbon lock-in disqualify an activity rather than merely require additional disclosure?
- Before the guidelines develop into formal principles, ICMA should consider whether some areas require minimum conditions that disclosure alone cannot satisfy.

The International Capital Market Association (ICMA) has made its Climate Transition Bond Guidelines clearer, but still leave substantial judgement with issuers over what qualifies as transition, what minimum conditions should apply at entity level, and how carbon lock-in should affect eligibility.

This is a problem for investors in Asia because the same climate transition bond label can cover materially different projects and activities – from the early retirement of a coal plant, to a coal-to-gas plant replacement, or a new gas infrastructure that depends on future hydrogen or carbon capture. Energy Shift Institute's April 2026 review identified four structural weaknesses in the ICMA guidelines: an unclear boundary between green and transition activities, an overly broad interpretation of "climate transition", weak credibility safeguards at entity level, and insufficient protection against carbon lock-in. ICMA's June frequently asked questions (FAQs) address several of these issues, but do not fully resolve them.

This follow-up commentary stress-tests the clarified guidelines against real investment decisions and asks a practical question: **Does an issuer-led, disclosure-led framework provide enough common ground for investors to rely on an international climate transition bond label across markets?**



Green versus Climate Transition distinction is clearer but remains issuer-led

The guidelines initially acknowledged the difficulty of distinguishing between a climate transition project and a green project and left the distinction to the issuer's own evaluation.

The FAQs now provide a more useful conceptual distinction between the two labels. Green projects deliver environmental benefits, while climate transition projects are high-emission activities that result in avoiding, reducing or removing emissions substantially and quantifiably.

The FAQs also clarify that appearing in the ICMA list of Climate Transition Projects does not automatically make an activity eligible. And to ensure alignment, an activity that is expressly excluded by the relevant jurisdiction's taxonomy is unlikely to satisfy the ICMA guidelines.

Furthermore, under the comply-or-explain approach, the FAQs clarify that issuers should meet, or explain how they plan to meet the safeguards stated in the guidelines, including rules about fossil fuels.

However, ICMA still leaves the final classification to the issuer to decide based on its own assessment, relevant taxonomies, decarbonisation pathways, market practice and local context. Issuers are encouraged to select and disclose the approach most appropriate to their geography and sector, where regional or national approaches diverge.

The same room to manoeuvre applies to bonds that finance both green and transition projects. The FAQs make it clear that the issuer determines the bond designation and that the guidelines encourage use of the transition label where a "meaningful portion" of proceeds supports climate transition projects, without defining a common minimum for what "meaningful" means.

This is a problem because the purpose of a label is to convey information efficiently. Energy Shift's April analysis showed how near-identical activities could appear under different labels in different markets. If the distinction continues to depend primarily on the issuer, investors would still need to go through the issuer's interpretation of the label to understand what is actually being financed.

Furthermore, the FAQs clarify that the issuer of a climate transition bond need not belong to a hard-to-abate sector. So, banks, governments and development institutions can also put a climate transition label on their bonds, and the onus is on investors to check whether the underlying clients, sectors or projects being financed support the transition of high-emitting activities.

While the distinction between green and climate transition has become a step clearer, how does a project become eligible for ICMA's climate transition label in the real world? The following stress test illustrates uncertainties that remain in the wake of the FAQs.

Stress test: Can a realistic switch from coal to gas power qualify for a climate transition label?

Coal-to-gas conversion is a useful test of eligibility because ICMA expressly includes fossil fuel switching in its list of categories that can carry a climate transition label. Its guidelines state the gas investment should demonstrably replace a fuel of higher emissions and be designed to allow future integration of low-carbon alternatives, monitoring and control of methane and other fugitive emissions, and carbon capture, usage and storage (CCUS), where relevant.

But the guidelines also say that appearing in the ICMA list of climate transition projects does not automatically make an activity eligible. Issuers are expected to conduct analysis showing that alternatives which emit less carbon are not technologically or economically feasible in the local context. The analysis must also demonstrate substantial emission reductions beyond business as usual, consistency with relevant transition pathways or frameworks, and assessment and mitigation of carbon

lock-in risk. For fossil fuel projects, ICMA identifies possible additional safeguards which Energy Shift had recommended to strengthen in its April review. These include a time-bound phase-out, sunset dates, limits on capacity expansion or asset-life extension, brownfield restrictions and abatement measures.

Under the ICMA guidelines, the following coal-to-gas **Fact Pattern A** could qualify as an eligible climate transition project.

- The project is retiring an existing coal plant early and replacing it with a combined-cycle gas turbine (CCGT) plant.
- The issuer demonstrates with substantive analysis and rationale that currently available lower-carbon alternatives cannot provide the required system service at reasonable cost in that market.
- The project materially cuts lifetime emissions by about half, does not expand overall fossil fuel generation capacity, controls methane emissions and has a credible, time-bound pathway that switches away from unabated gas and catches up with a credible science-based transition pathway.

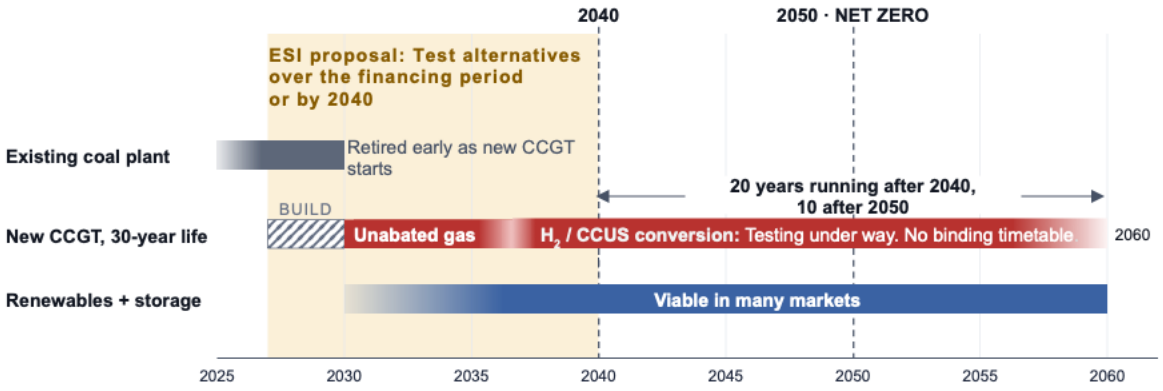
But consider **Fact Pattern B** below, which is seen more commonly in Asia:

- The new CCGT replacing an existing coal plant is expected to operate for 30 years.
- Renewables generation, storage or other lower-carbon options will be commercially viable well before the new CCGT's operating life ends.
- The power grid currently restricts the deployment of low-carbon alternatives, but storage and other options can be implemented and grid reform discussion is under way.
- There are plans to convert the new CCGT to hydrogen or retrofit it with CCUS in future and testing is under way, but not backed by a binding timetable or investment plan. The new CCGT could therefore be operational beyond key 2040 and 2050 decarbonisation milestones.

So, does Fact Pattern B qualify for the climate transition label? It is uncertain under the ICMA guidelines because low-carbon options can be implemented well before the new CCGT's operating life ends. In Energy Shift's view, the uncertainty creates a credibility concern – in both the guidelines and the project that carries the climate transition label. A new CCGT without a funded, time-bound conversion or retirement pathway should not carry the climate transition label.

Figure 1. Does replacing an existing coal plant with a new 30-year gas plant under a climate transition label make sense?

Renewables and storage could be viable within the new CCGT plant's life.



Illustrative timing for Fact Pattern B: Financing in 2027, assuming a three-year build and commercial operation from 2030. Renewables and storage shown as viable 5 years from 2026, in line with national planning in many markets.

Source: ESI analysis.

This is also where carbon lock-in assessment becomes important. Energy Shift's April analysis argued that climate transition credibility was much weaker where it created new, long-lived fossil-linked assets. A project may reduce emissions relative to a higher-emitting alternative today, but still lock in fossil fuel use for decades – including after lower-carbon options become commercially viable.

In Energy Shift's opinion, the availability of lower-carbon alternatives needs to be evaluated not as a point in time, but over a reasonable horizon and, by any measure, before 2040. The mere fact that renewable energy generation and battery storage are not currently deployed does not mean they are unfeasible, and so does not by itself justify labelling a coal-to-gas conversion as a climate transition project. Their costs are coming down rapidly, and evidence shows they are becoming more available in many markets.

To justify giving a coal-to-gas project a climate transition label, it would be more credible to require an assessment that lower-carbon alternatives will be unavailable over at least the new CCGT's financing period. Similarly, if grid constraint is the reason that lower-carbon options are not currently viable, the issuer must show why planned grid and storage investment will not make lower-carbon options feasible within the CCGT's life, and engage with the relevant authorities to discuss grid needs.

The guidelines and FAQs identify the right risks, but do not provide a clear eligibility outcome in the event these risks become too great for a climate transition label to be justified.

This shortcoming creates several practical questions:

- Should investors consider what lower-carbon alternatives are feasible only when the bond is issued, or what is reasonably expected to become feasible during the asset's operating life or, at least, the financing period?
- How directly must the new CCGT be linked to the retirement of the coal plant it is meant to replace?
- Where continued use of gas depends on future conversion or abatement being explored, when does that need to become a time-bound commitment rather than an aspiration?
- How are lifetime emissions calculated to assess whether a reduction is substantial and quantifiable?

These are not theoretical scenarios. They determine whether an investor is financing a temporary step away from a higher-emitting asset or a new fossil fuel asset that could remain in the system long after cleaner options become available.

Such is the dichotomy that, if muddled, it would reduce the signalling value of the climate transition label. And investors would still need to undertake transaction-level due diligence.

What ICMA could consider next

The ICMA guidelines could add more value by using practical examples to stress-test where the eligibility boundary sits. This would include circumstances in which disclosure and extra safeguards are sufficient, and circumstances in which a project should no longer qualify as a climate transition project.

Entity-level expectations are clearer but credibility floor remains weak

The FAQs make meaningful improvements to the entity-level discussion.

ICMA now defines "best efforts" alignment with its Climate Transition Finance Handbook as a comply-or-explain approach. It has also given more guidance on how financial institutions should connect their own transition strategy and governance to financed activities, how SPV-level financing should remain coherent with entity-level transition objectives, and how sovereign issuers should link high-level climate commitments to implementation road maps, fiscal priorities and capital investment. These

clarifications address part of Energy Shift's original concern that transition credibility was being judged solely at project level.

ICMA has not, however, clarified how issuers should explain entity-level credibility nor established strong minimum conditions for demonstrating it.

Notably, externally validated science-based targets are not prerequisites under the guidelines. And more fundamentally, the guidelines still do not establish mandatory disclosure of Scope 1, 2 or material Scope 3 emissions as a baseline condition for an instrument to bear the transition label.

These gaps continue to be a problem. A transition bond can support a genuine operational improvement while the issuer's emission profile remains largely unchanged. Energy Shift's April analysis used Nippon Yusen Kabushiki Kaisha (NYK) Line to illustrate this shortcoming. The transition bonds of the shipping firm financed lower-emission ships, but issuer-level Scope 3 reporting revealed a much larger value-chain emission footprint. Without that wider view at the point of issuance, investors could have overestimated how far the issuer itself was making the transition.

The concern is therefore not whether ICMA recognises entity-level transition strategies, which it clearly does. The concern is what minimum evidence investors should be entitled to expect from a bond that uses the climate transition label.

The FAQs partly address this concern by clarifying that the issuer should provide entity-level transition information on a comply-or-explain basis. However, they do not establish a minimum disclosure threshold that issuers must meet before using the climate transition label. Where material information such as Scope 3 emissions is absent, investors lack the evidence needed to assess whether the financed activity is significant to the issuer's overall transition.

A transition label is only as credible as the issuer's broader transition strategy.

The ICMA guidelines would add to the credibility of the climate transition bond label by strengthening credibility at entity level.

What ICMA could consider next

The guidelines would be stronger with a minimum entity-level disclosure that includes:

- Scope 1 and 2 emissions and material Scope 3 emissions
- A clear explanation of how financed activities address the issuer's principal emission sources
- Evidence that the financed activities are material to the issuer's overall decarbonisation pathway
- Where financing sits in a subsidiary or an SPV, an explanation of how it contributes to the wider group transition.

Carbon lock-in assessment is stronger, but when should lock-in affect eligibility?

The FAQs have improved substantially the disclosure of carbon lock-ins. Issuers are now expected to explain how they assess lock-in risk, including asset lifetime, available alternatives, emission intensity, sector pathways and long-term net-zero compatibility.

These give investors more information than the original guidelines did and directly address one of the weaknesses identified in Energy Shift's April analysis.

The remaining concern is narrower. ICMA sets out what issuers should assess and disclose, but not at what point their assessment outcome, namely a carbon lock-in, should render a project ineligible for the climate transition label. Disclosing lock-in risks is not the same as preventing it.

This is particularly important for greenfield, long-lived fossil fuel infrastructure, illustrated in the earlier coal-to-gas stress test. A project can deliver near-term emission reductions while creating infrastructure that remains in operation after lower-carbon alternatives become viable. For that reason, assessing transition credibility only at the point of issuance is not enough. Long-lived and new-build assets warrant a higher eligibility bar.

One recent issuance shows the carbon lock-in potential is already a practical market question. Korea Southern Power (KOSPO) priced a USD300 million climate transition bond in September 2026. Sustainable Fitch's second-party opinion assessed KOSPO's transition financing framework as being aligned with the ICMA guidelines and Climate Transition Finance Handbook, while also noting that "carbon lock-ins are partially addressed… the extent to which this commitment can be realised remains dependent on the successful commercialisation and deployment of low-emissions fuels and related abatement technologies".

The KOSPO case illustrates that an issuer can achieve ICMA alignment despite material uncertainty about carbon lock-in.

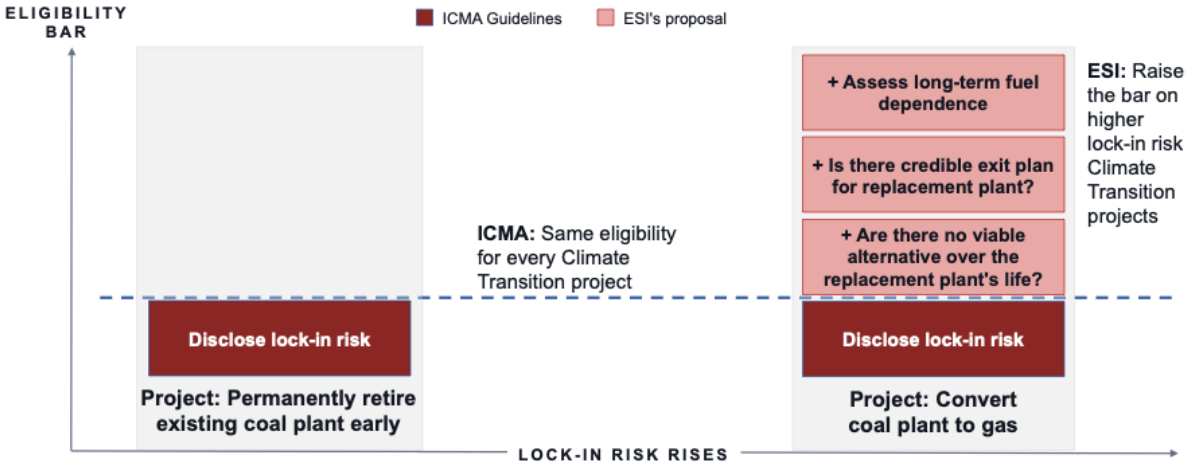
Disclosure of that risk is useful for investors. But when does disclosed carbon lock-in become unacceptable carbon lock-in for climate transition bonds?

What ICMA could consider next

The next iteration of the guidelines could therefore distinguish more clearly between lock-in risks that need to be disclosed and those that are serious enough to affect eligibility. In particular:

- New or long-lived fossil fuel infrastructure should face a higher eligibility bar than the decarbonisation or managed retirement of existing high-emitting assets
- Where an activity continues to rely on fossil fuels, issuers should be required to demonstrate that feasible lower-carbon alternatives are unavailable in the local context, taking account of how those options may develop over the asset's lifetime
- Transition pathways for long-lived emitting assets should include credible sunset, retirement, conversion or low-carbon end-state plans
- Relative emission improvement over a higher-carbon alternative should not, by itself, be sufficient where the investment creates substantial long-term fossil fuel dependence.

Figure 2. Climate transition projects with higher lock-in risk should be subjected to a higher eligibility bar.



Project examples are illustrative only. Where a project sits depends on its respective facts.
Sources: ICMA Guidelines (Nov 2025) and FAQs (Jun 2026); ESI analysis.

Next question for climate transition bond market

The FAQs confirm that ICMA has chosen a flexible framework built around issuer judgment and disclosure. Legitimate reasons support this approach. Climate transition pathways differ across markets, technologies continue to evolve, and international market guidelines cannot replicate every national taxonomy. ICMA's guidelines serve issuers and financial intermediaries across jurisdictions whose climate transition frameworks may diverge.

The trade-off is that the meaning and value of the ICMA climate transition label can vary materially among issuers and jurisdictions.

The key question for ICMA's next iteration of its guidelines is therefore where flexibility should end.

A global climate transition framework does not need to prescribe a technological pathway or replace national taxonomies. But an internationally recognised label needs to communicate some common minimum characteristics to be credible.

Before developing formal climate transition bond principles, ICMA would benefit from undertaking external reviews and public consultations focused on which integrity conditions must be common across the market, and which can legitimately remain specific to the issuer or jurisdiction.

That would help preserve the flexibility needed to fund a real-world transition while giving investors greater confidence that an ICMA climate transition label carries a meaningful minimum standard wherever it is used.

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The Energy Shift Institute is an independent non-profit energy finance think-tank driving context, clarity and credibility for Asia's energy transition pathways.

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