

# Climate Finance Policy Support for Mobilizing Transition Finance in Asia

Transition finance has emerged as one of the fastest growing and most hotly debated areas in sustainable finance. This reflects a growing awareness and acceptance in the market that certain high-emitting sectors like steel, cement, shipping, and aviation are by their nature “hard to abate” due to current technological limitations and cost or feasibility considerations; yet, these sectors are also non-substitutable and too economically critical to phase out. At the same time, the pressure on investors to “go green,” resulting from stricter climate sustainability requirements and accelerated carbon phase-out policies, necessarily raises the apparent risk of continued investment in these assets, thus reducing investment appetites and crowding out necessary transition investments.

Managing this challenge is particularly pressing for developing economies in Asia and the Pacific, which are often reliant on these heavy industries but lack access to sufficient financial and technological resources for navigating their transition. Accordingly, Asian policy makers and market regulators have emerged as global leaders in promoting transition finance opportunities for their economies, while also attempting to address the key challenges issuers and investors face.

Key challenges and risk that regulators need to address when developing transition finance policies include the following:

- (1) a current lack of generally agreed definitions across jurisdictions for transition finance and corporate transition plans, which can conflict with traditional approaches to green finance while limiting market standardization and the potential for cross-border financing and investment flows;
- (2) reputational risks to investors, who may face greenwashing accusations for providing financing to high-emitting sectors and activities, as upfront

financed emissions often increase as a result; unlike green or zero-emission investments, there is no single accepted metric for differentiating legitimate transition assets from business-as-usual assets;

- (3) stranded-asset risks to corporates, which bear the risk of potential losses from investments in alternative and ultimately non-commercially viable transition technologies, or misallocated capital expenditures designed to prolong the life of unsustainable operations and technologies, especially in an accelerated net zero transition scenario; and
- (4) the need for detailed technical standards, either in the form of sectoral technology roadmaps or transition taxonomies with technical and temporal screening thresholds that are often dependent on the economy- and development-level context, and transition plan frameworks for corporates to communicate to investors that their transition strategies are feasible and credible.

## Regulatory Approaches Defining Transition Finance: Taxonomies and Roadmaps

A common thread in transition finance is how regulators can balance the need to channel capital into hard-to-abate sectors and breakthrough research and development to achieve a just and achievable carbon transition, while also maintaining a robust and science-based green finance framework that is credible to sustainable investors and discourages greenwashing. Currently, two main approaches have emerged: transition taxonomies and transition sector technology roadmaps (**Table 3**).<sup>9</sup>

In some cases, regulatory bodies are developing general mandates or voluntary guidelines for corporates to produce transition plans for investors to assess actual

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<sup>9</sup> CFA Institute Research and Policy Center. 2024. [Navigating Transition Finance: An Action List](#).

Table 3: Regulatory Approaches for Transition Finance

	Transition Taxonomy	Technology Roadmap
Description	Expansion of conventional green taxonomies to recognize intermediate categories for transitional or enabling activities and technologies, subject to technical standards, time constraints, or designated sectors	Economy- and sector-specific guidance on technological development and implementation roadmaps with target time frames for decarbonization in certain high-emitting sectors
Example Methodologies	<p>“Traffic light systems” with an intermediate category for activities that are on a path to becoming sustainable for the climate or facilitating significant emissions reductions (i.e., green, amber, red [ineligible])</p> <p>Technical screening criteria such as emissions intensity and time limits</p> <p>Principles-based designations of activities and sectors by tiers and classes of transition</p> <p>Catalogs or lists of transitional and/or enabling-activity technologies</p>	Technological development pathways with timelines, target emission reduction levels, and necessary enabling technologies with multiple possible approaches
Implementation Examples in Force	<ul style="list-style-type: none"> <li>• MAS-Asia Taxonomy</li> <li>• ASEAN Taxonomy V2</li> <li>• BNM Malaysia Climate-Change and Principle-based Taxonomy</li> <li>• Thailand Green and Transition Taxonomy</li> <li>• Indonesia Green Taxonomy Edition 1</li> <li>• Republic of Korea K-Taxonomy</li> <li>• People’s Republic of China (local level)</li> </ul>	<ul style="list-style-type: none"> <li>• METI Japan Sector Technology Roadmaps for GHG-Intensive Industries</li> </ul>
Implementation Pending or Under Discussion	Australia, Canada, People’s Republic of China (national level)	

ASEAN = Association of Southeast Asian Nations; BNM = Bank Negara Malaysia; GHG = greenhouse gas emissions; MAS = Monetary Authority of Singapore; METI = Ministry of Economy, Trade and Industry.

Note: All descriptions as of March 2024.

Sources: Author’s compilation based on data from CFA Institute Research and Policy Center. 2024. *Navigating Transition Finance: An Action List*; and Net Zero. 2023. *Regulation Stocktake Report*.

progress and planned steps for achieving net zero pledges.<sup>10</sup> This approach can complement and reinforce transition taxonomies and technology roadmaps, as well as align the jurisdiction’s corporate disclosures with international climate-related disclosure standards such as the International Financial Reporting Standards Foundation S2 Climate-Related Disclosures (Table 4).<sup>11</sup>

## Japan’s Comprehensive Approach to Transition Finance Policies

While many economies and regions have focused on definitional methods by adopting green taxonomies to include transition elements or categories, Japan has taken

an altogether different approach by directly providing technological guidance with an array of potential transition pathways specifically developed for its own economy. In fact, Japan’s industrial and energy sector transition roadmaps from the Ministry of Economy, Trade and Industry are part of a larger package of pro-growth, carbon-pricing reforms and society-wide decarbonization strategies called the Green Transformation, or GX Policy, for meeting the market’s long-term growth and energy security goals. This national green development policy is backed by a JPY150 trillion package of long-term public-private financing from the issuance of the world’s first sovereign Climate Transition Bonds, or GX Japanese Government Bonds, as part of a 10-year funding strategy led by the Ministry of Finance.<sup>12</sup>

<sup>10</sup> Climate Governance Initiative. 2024. *Transition Planning: A Global Outlook for Board Directors*.

<sup>11</sup> Net Zero Climate. 2023. *Regulation Stocktake Report*. <https://netzeroclimate.org/wp-content/uploads/2023/11/Net-Zero-Regulation-Stocktake-Report-November-2023.pdf>.

<sup>12</sup> Government of Japan, Ministry of Economy, Trade and Industry. *Transition Finance Overview* (accessed 31 July 2024).

**Table 4: Jurisdictions with Regulatory Requirements for Corporate Transition Plans**

In Place	<ul style="list-style-type: none"> <li>• Brazil: Central bank mandates that financial institutions provide a TP</li> <li>• European Union: CSRD mandates that large corporates and investors disclose TPs</li> <li>• France: National financial regulator has produced a TP guide for business</li> <li>• Japan: Corporate governance code encourages disclosure of TPs and pathways</li> <li>• Russian Federation: State companies must disclose TP; central bank issued a TP methodology</li> <li>• Türkiye: Entities must disclose transition strategies on a comply-or-explain basis</li> <li>• UK: Transition Planning Task Force developing “gold standard” for TPs</li> </ul>
In Progress	Australia, Canada, Germany, India, Indonesia, Italy, Republic of Korea, South Africa

CSRD = Corporate Sustainability Reporting Directive, TP = transition plan, UK = United Kingdom.

Note: All descriptions as of March 2024.

Sources: Author’s compilation based on Net Zero. 2023. *Regulation Stocktake Report*; and Climate Governance Initiative. 2024. *Transition Planning: A Global Outlook for Board Directors*.

This ambitious and comprehensive package of financial and industrial policies arguably positions Japan as an advanced proponent of transition finance. However, the GX strategy has also attracted controversy for including natural gas and nuclear power as part of an

“all of the above” energy decarbonization approach. The strategy also includes emerging technologies like carbon sequestration and ammonia co-firing for coal plant and fossil fuel phase-out strategies. This experience illustrates the need for policymakers to clearly and honestly communicate why climate transition strategies are necessary, with the risks and benefits that they entail.

## Conclusion

Overall, there is growing consensus that sustainable finance policies need to channel capital for both green and transition investments to achieve an orderly and affordable climate transition. In some cases, it has become necessary to carefully rework and redefine certain climate finance regulations to de-risk and provide appropriate support to transition sectors and development pathways. For their part, corporates in hard-to-abate sectors and sustainable investors alike can benefit from better disclosure of credible transition plans and guidance of where to extend financing for climate- and commercially viable transition pathways. By delivering practical climate transition policies with a focus on addressing the key challenges to market participants, policy makers and regulators can effectively expand green finance to incorporate transition elements while upholding sustainable market integrity.