DUFAS Dutch Fund and Asset Management Association

24 September 2025

Transition finance and the regulatory context

CFA Event ‘Is Transition Finance the Future of Sustainable Investing?’

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About DUFAS

DUFAS (Dutch Fund and Asset Management Association) is committed to a healthy asset management sector in the Netherlands. DUFAS has more than 50 members: from large asset managers who invest Dutch pension and insurance assets, to smaller, specialist asset managers. DUFAS increases awareness of the social relevance of investing, helps to develop sector standards and represents the sector in the implementation of new laws and regulations. In addition, DUFAS is committed to a single European market with equal regulations.

Find out more at Dufas.nl (English website under construction)

DUFAS focus on Transition Finance

Sustainability Committee started work in early 2024

- Members signaled developments around transition finance
  - Emerging demand, but diverging interpretations and approaches
  - Legislator and regulator activity – both EU and NL

- Developments can be understood in the context of various drivers
  - Global climate goals, including net zero
  - Limitations of green finance
  - ‘Brown’ industries are considered of fundamental importance

- Discussion paper on transition finance (non-public)
  - Key regulatory and legislative developments
  - Identifying main issues
  - Developing a way forward in terms of policy engagement and sharing of practices


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DUFAS- draft discussion paper on transition finance

To:	[ ]
From:	The Dutch Fund and Asset Management Association (DUFAS)
Date:	[ ] May 2024
Subject:	**The concept of transition finance/EU regulatory framework**
Contact details:	Randy Pattiselanno, Manager strategy & regulatory affairs, rp@dufas.nl Ron Gruijters, Manager sustainable finance, rg@dufas.nl

Introduction

The concept of transition finance refers in general to the financing of projects and economic activities that support the transition to a more sustainable economy. This includes investments in sectors that are transitioning towards lower carbon emissions, increased energy efficiency, and improved climate and environmental outcomes. Transition Finance is also part of the EU taxonomy. The EU taxonomy is a

Regulatory context – guidance and tools

EC Recommendations, EU Climate Benchmarks, EU Taxonomy

- European Commission: ‘Sustainable finance is about financing both what is already environment-friendly today (green finance) and what is transitioning to environment-friendly performance levels over time (transition finance). *(Recital 4, (EU) 2023/1425)*

- On 13 June 2023, the Commission issued [non-binding recommendations] on how non-financial and financial companies can voluntarily use EU sustainable finance tools to seek or provide transition finance. The EU’s sustainable finance toolbox not only supports companies with the highest sustainability records, but also companies with different starting points that have clear sustainability targets.


RECOMMENDATIONS

COMMISSION RECOMMENDATION (EU) 2023/1425

of 27 June 2023

on facilitating finance for the transition to a sustainable economy

Regulatory context - guidance

EC Recommendations, EU Climate Benchmarks, EU Taxonomy

2.2. **Transition finance** means financing of investments compatible with and contributing to the transition, that avoids lock-ins, including:

(a) investments in portfolios tracking EU climate transition benchmarks and EU Paris-aligned benchmarks ('EU climate benchmarks');

(b) investments in Taxonomy-aligned economic activities, including:

— transitional economic activities as defined by Article 10(2) of Regulation (EU) 2020/852 for the climate mitigation objective,

— Taxonomy-eligible economic activities becoming Taxonomy-aligned in accordance with Article 1(2) of Commission Delegated Regulation (EU) 2021/2178 over a period of maximum 5 (exceptionally 10) years [28];

(c) investments in undertakings or economic activities with a credible transition plan at the level of the undertaking or at activity level;

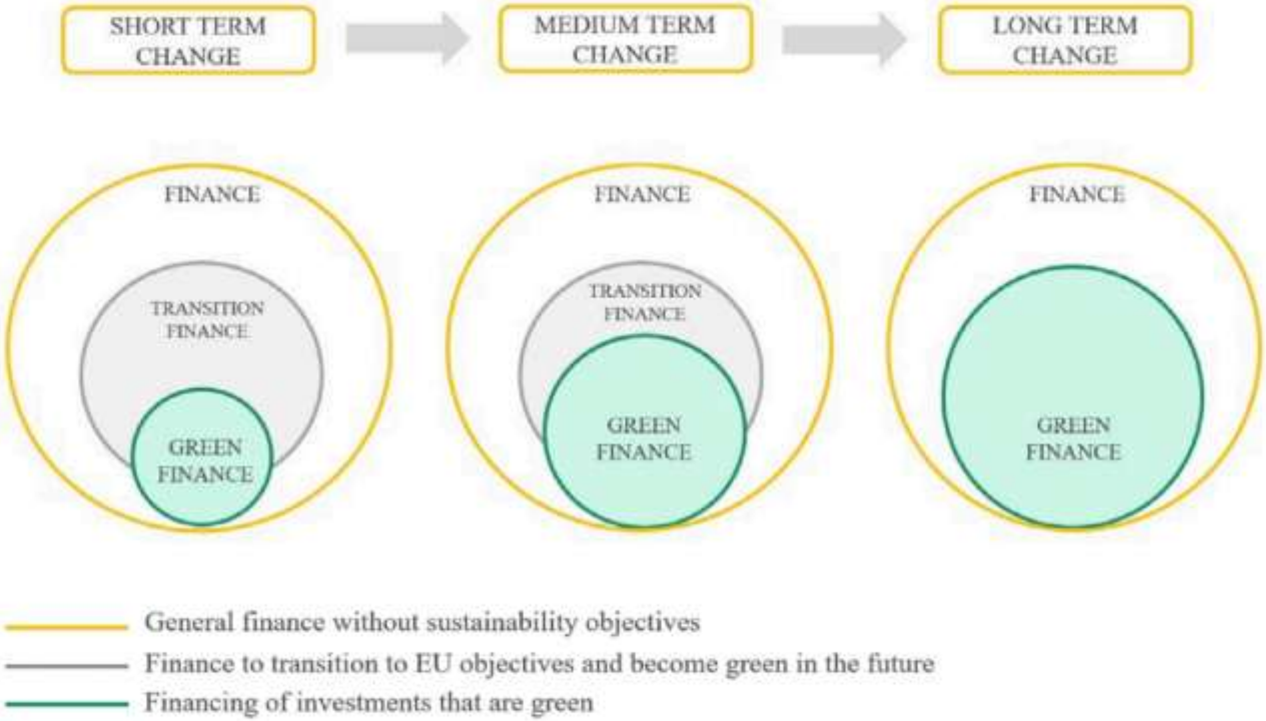
(d) investments in undertakings or economic activities with credible science-based targets, where proportionate, that are supported by information ensuring integrity, transparency and accountability.

Source: EC Recommendations (2023), paragraph 2.2

Regulatory context - guidance

EC Recommendations, EU Climate Benchmarks, EU Taxonomy

Figure 1: Relationship between green and transition finance today and over time



Source: EC Recommendations (2023), Annex, Figure 1

Regulatory context - tools

EC Recommendations, EU Climate Benchmarks, EU Taxonomy

- Two EU climate benchmarks, established in 2020 under the amended Benchmark Regulation

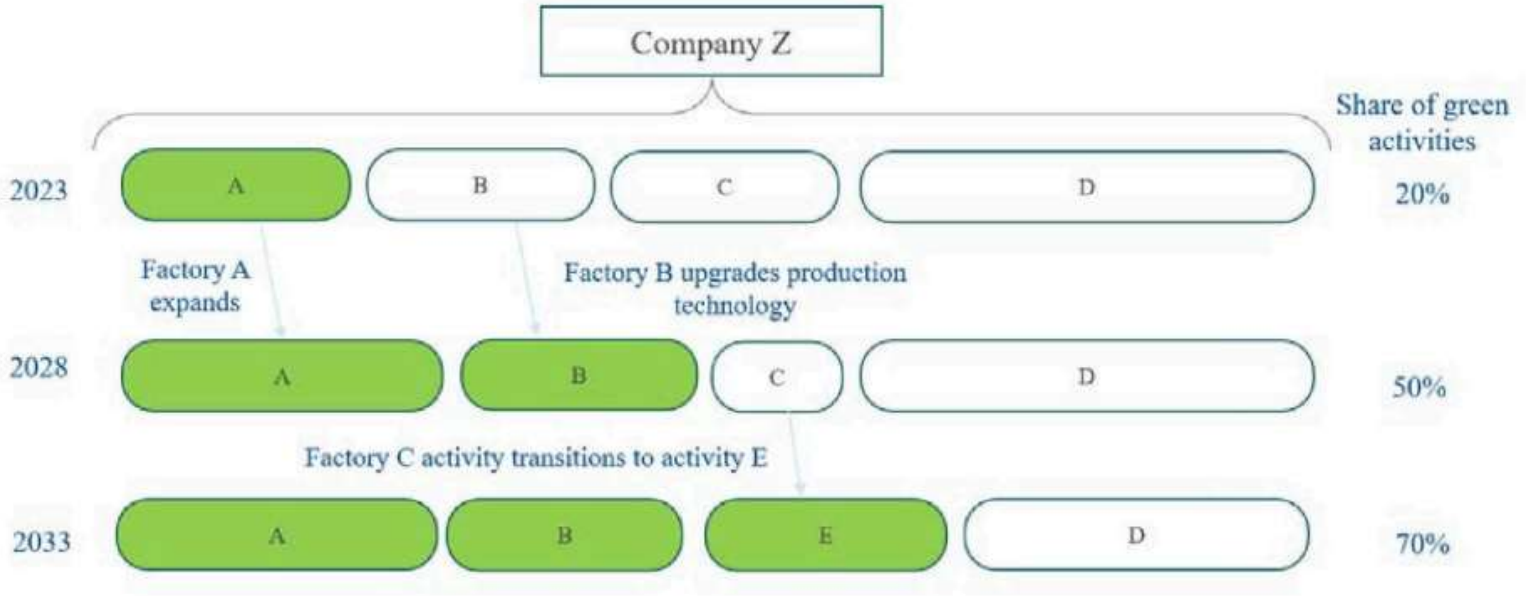
		EU Climate Transition Benchmark (EU CTB)	EU Paris-Aligned Benchmark (EU PAB)
Risk oriented minimum standards	Carbon intensity reduction -> at inception (vs. parent index)	30%	50%
	Scope 3 phase-in	2-4 years	2-4 years
	Baseline exclusion	Yes (controversial weapons / societal norms violators)	
	Activity exclusion	No	Coal (1% + revenues) Oil (10% + revenues) Natural Gas (50% + revenues) Electricity producers (50% + revenues)*
Opportunity oriented minimum standards	Exposure to high impact sectors	Minimum exposure at least equal to parent benchmark value	
	Year-on-year self decarbonization	7%	7%
	Disqualification from label	2 consecutive years of misalignment	

Source: UNEP FI (2022)

Regulatory context - tools

EC Recommendations, EU Climate Benchmarks, EU Taxonomy

- EU Taxonomy explicitly intended to be a tool for transition
- SFDR requires disclosure of the minimum proportion of EU Taxonomy-aligned investments



Source: EC Recommendations (2023), Annex, figure 5

Supervisory activities

ESMA Fund Naming Guidelines, ESMA Opinion, AFM positions

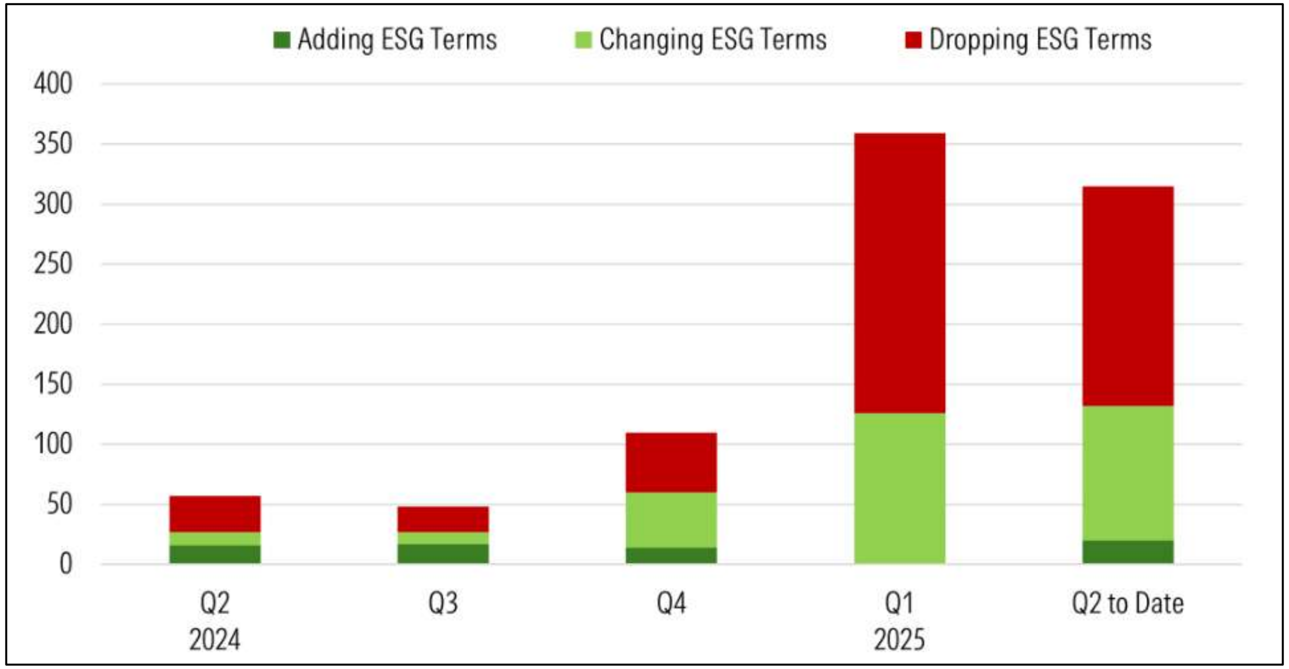
- ESMA introduced guidelines for ESG-related fund names in 2024, with existing funds required to comply by May 21, 2025

Fund Category	Requirement
No ESG word in name	
Social/Governance term or "transition" in name	Min. 80% of investments used to meet E or S characteristics or sustainable investment - CTB exclusion: exclusion of controversial weapons/companies violating social safeguards - If "transition": clear and measurable path to transition
Environmental word or "impact" in name	Same as #1 + PAB exclusion: fossil fuel sector exclusion If "impact": positive and measurable impact
"Sustainable" word in name	Same as #2 + invest 'meaningfully' in sustainable investments

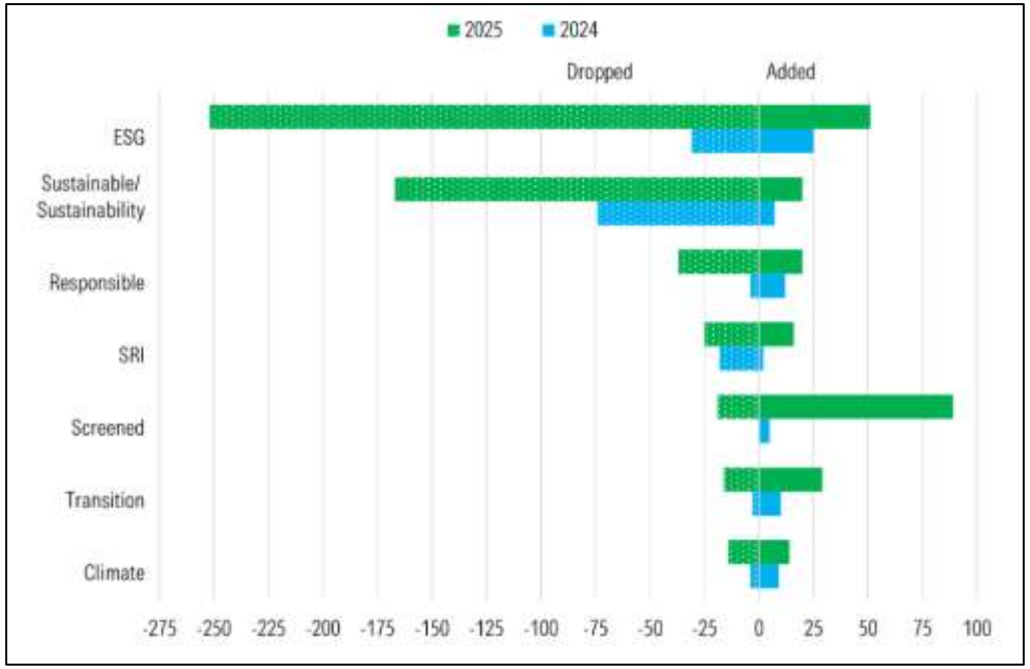
Source: Morningstar Sustainalytics

Supervisory activities

ESMA Fund Naming Guidelines, ESMA Opinion, AFM positions



Source: Morningstar Sustainalytics



Source: Morningstar Direct

Supervisory activities

ESMA Fund Naming Guidelines, ESMA Opinion, AFM position

- ESMA Opinion on improving the usability and coherence of the EU Sustainable Finance Regulatory Framework (July 24, 2024)

Key recommendations

- Complement current disclosures to provide information on the share of revenue and Capital Expenditure (CapEx) associated with harmful activities that are in a transitioning trajectory or are decommissioning.
- Provide a legal definition of transition investments.
- Ensure the consistency of transition-related disclosure requirements in EU legal texts.
- Take stock of transition plan disclosures to ensure credibility and consistency.
- Develop a broader set of transition benchmarks and raise the ambition of EU Climate Benchmarks.
- Develop high-quality standards for transition bonds and sustainability-linked bonds.

Supervisory activities

AFM position

- AFM has provided its opinion on the development of a product categorization focused on transition in the context of the SFDR Review

Minimum quality requirements	Minimum disclosure requirements (both precontractual and periodic annually)
Products with "transition" label	
- **Product has objective to generate positive, measurable social or environmental impact alongside a financial return.** - **The investment strategy provides additionality through active management (i.e. engagement), and the products accordingly have an engagement strategy.** - **Apply exclusion criteria referred to in Article 12(1)(a)-(c) of Commission Delegated Regulation (EU) 2020/1818 [align with ESMA fund name GLs proposal].** - **Investee companies have a credible transition plan (with short, medium, and long term targets). Where possible based on the CSDR standards.[1] Investee companies that do not yet have a plan in place should have one within two years of being part of the portfolio.** - **Product has transition targets in line with Paris (decarbonisation) and/or Kunming/Montreal agreements (biodiversity).** - **Product invests a minimum of 80% of AuM according to its sustainability strategy.**	- **Report (y-o-y) on negative impact indicators[2]**, such as: o GHG emissions o Biodiversity o Human Rights o Labour Rights - **Report on investor impact strategy** (i.e. theory of change), including: o Impact targets (KPIs); o Engagement strategy (incl. how shareholder engagement is integrated into the investment strategy of the product, how the investee companies are monitored and how voting rights are exercised as well as how dialogue is conducted with investee companies); o Exit thresholds; o Metrics regarding measurement of investor contribution. - **Report on overall product transition plan** incl. short-term, medium-term and long-term targets, in line with CSRD requirements. - **Report annually on progress** with regard to transition plan targets.

Source: AFM (2025)

Regulatory context - future

SFDR Review of level 1 legislation

- European Commission indeed considers the introduction of product categories under the revised SFDR

> - **Sustainable category*:** products contributing to an environmental or social objective and not investing in harmful assets.
> - **Transition category*:** products mainly investing in transitioning assets or implementing a transition strategy at portfolio level (and minimum safeguards).
> - **'ESG' category***: products with other ESG strategies (e.g. process-based strategy such as best-in-class) and minimum safeguards.

Source: DG FISMA, Policy measures under consideration (2025)

Key issues and DUFAS policy engagement

DUFAS discussion paper on Transition Finance

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Key issues

- ➢ Limitations to EU guidance and tools
- ➢ Scoping the transition (environmental, social)
- ➢ Treatment of enabling and supporting activities, also in light of contribution to national (energy transition) initiatives

Key issues and DUFAS policy engagement

DUFAS discussion paper on Transition Finance


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Policy engagement (primarily EU)

- Both ‘investor protection’ and clarity for companies contributing to the transition(s) should be foundational concepts
- Legal (binding?) definitions for transition finance and related concepts (such as transition plans) are necessary
- The EU framework should explicitly cover public-private financing initiatives that are aimed at mobilizing institutional investment (to facilitate, or at least to not discourage?)
- DUFAS currently does not consider the Taxonomy a transition finance tool
- Transition plan requirements need to be aligned throughout relevant legislation, most notably CSRD and CSDDD
- EU climate benchmarks should seamlessly fit into a Framework that is updated based on credible and science-based definitions for relevant concepts
- Social minimum safeguards under the Taxonomy are of crucial importance to prevent the climate transition to cause unintended negative social impacts

Questions?