INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

Twenty fourth Authority Meeting held on 24.06.2025

Subject: Proposed Framework for Transition Bonds

1. Objective

This memorandum seeks approval of the Authority on the proposed "Framework for Transition Bonds" to enable issuers specifically from hard-to-abate sectors raise capital and list their securities at IFSC, while committing to a credible transition plan and making enhanced disclosures to ensure interests of the investors are protected.

2. Background

2.1. The Paris Agreement, of which India is a signatory, aims to limit global temperature rise to well below 2°C above pre-industrial levels, with efforts to keep it within 1.5°C. The achievement of this goal requires substantial reductions in GHG emissions across all sectors. The international discussions at COP26 (Glasgow) and COP27 (Sharm el-Sheikh) have also emphasized the need for financial flows to align with long-term decarbonization objectives.

2.2. As on June 11, 2025, 142 countries, covering 78% of global Gross Domestic Product (GDP) and 76% of global GHG emissions, have adopted net zero targets and around 1189 of the largest 2000 publicly traded companies have also adopted net zero targets[1]. While these commitments are a positive step, the implementation of these targets will be the real challenge.

[1] https://zerotracker.net/

2.3. *Globally, around USD 125 trillion of climate investment is needed to achieve the net zero target by 2050*[2]*. At current estimates, India alone will need to mobilize over USD 10 trillion in investments to achieve its net zero commitments and meet its climate goals*[3]*. Development of green financial markets will be key in ensuring these targets are met and contribute meaningfully to the global effort to limit climate change.*

2.4. *In recent years, ESG labelled debt securities (Green, Social, Sustainability and Sustainability-linked) have seen substantial growth globally, with many government and corporate entities engaging with investors to finance debt while making a net positive environmental or social impact. As on Q3 of FY 2024, the cumulative listing of ESG labelled debt securities stood at USD 5.4 Tn*[4]*.*

Category	Cumulative Since 2006 (USD Bn)	% Total
Green	3366.3	62%
Social	1052.9	19%
Sustainability	956.5	18%
Sustainability-linked bonds	55.4	1%
Total	**5431.1**	**100%**

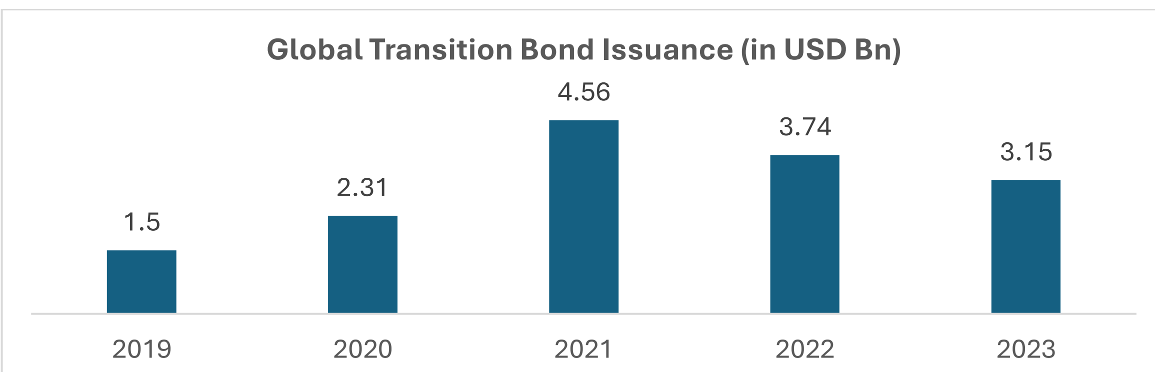
2.5. *While ESG labelled debt securities have played a key role in mobilizing climate finance, it is generally seen that their application is often limited to sectors/projects that are at near/net zero. For instance, 75% of the green debt volume is directed primarily towards energy, buildings, and transport*[5]*. Industries such as steel, cement, heavy duty transport, aviation, and shipping etc., which contribute approximately 40% of global greenhouse gas*

[2] https://climatechampions.unfccc.int/whats-the-cost-of-net-zero-2/
[3] https://www.ceew.in/press-releases/india-will-require-investments-worth-over-usd-10-trillion-achieve-net-zero-2070-ceew
[4] https://www.climatebonds.net/files/reports/cbi_mr_q3_2024_01c.pdf
[5] https://www.climatebonds.net/market/data/#use-of-proceeds-charts

(GHG) emissions[6] and are categorized as 'hard-to-abate', face difficulties in accessing finance despite their commitments to long-term decarbonization. Thus, achieving global net zero emissions is not possible without the decarbonization of these sectors.

2.6. *Transition finance provides a structured pathway for hard-to-abate industries to reduce their emissions progressively by enabling investments in cleaner technologies, processes and alternative fuels. Instruments such as transition bonds and transition loans can help mobilize capital towards these efforts while ensuring alignment with emission reduction goals.*

2.7. *The issuance of Transition Bonds has remained modest with cumulative global Transition Bonds issuance from 2019 to 2023 at $15.26 billion[7], accounting for less than 1% of the total ESG-labelled debt market. However, given that hard-to-abate sectors are essential for achieving global net zero targets, significantly scaling up transition finance is critical to driving meaningful decarbonization in these industries.*



2.8. *While Transition Bonds hold significant potential, their growth has been slow. Amongst others, lack of clear definitions and standards, insufficient regulatory guidance, and*

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6 https://www.weforum.org/stories/2024/12/net-zero-hard-to-abate-sectors-decarbonization/

7 https://zerocarbon-analytics.org/archives/economics/reforming-climate-finance-asia-leads-in-transition-finance

concerns over credibility and transparency have been the key reasons affecting the issuance of such instruments.

2.9. *Instruments such as Transition Bonds hold significant potential in mobilizing capital for decarbonization, particularly in high-emitting industries in developing countries such as India and hence require immediate attention to address the challenges. Thus, it is felt that similar to regulatory framework for Green, Social, Sustainability and Sustainability-linked bonds, a regulatory framework for Transition Bonds would not only assist issuers from hard-to-abate sectors to raise capital but shall also bring credibility amongst investors by ensuring adequate disclosures, independent external review, etc. to mitigate the risk of greenwashing.*

3. ***IFSCA's Initiative on Transition Bond Regulation/ Consultative Process***

3.1. *IFSCA recognizes the pivotal role of ESG labelled debt securities (Green Bonds, Social Bonds, Sustainability Bonds, Sustainability-linked Bonds) in financing sustainable development and transition to a low-carbon economy. In line with this, a regulatory framework for Green, Social, Sustainable and Sustainability-linked Bonds was initially brought in by IFSCA as part of IFSCA (Issuance & Listing of Securities) Regulations,2021 and subsequently subsumed in the IFSCA (Listing) Regulations, 2025. As on April 2025, the GIFT-IFSC has witnessed the listing of approximately USD 15.43 Bn ESG labelled debt securities, accounting for ~24% of the total debt securities listed, which stand at USD 65.10 Bn.*

3.2. *As mentioned in para 2.5 above, though the overall green financing has increased, "hard-to-abate" sectors face difficulties in accessing finance despite their commitments to long-term decarbonization. In this background, IFSCA had set up the Expert Committee on Climate Finance with the following Terms of Reference related to Transition Finance:*

i. *To recommend a regulatory framework for transition finance instruments.*

ii. *To advise IFSCA on the approach for developing a reliable and cost-effective ecosystem for transition finance meeting needs of the Indian industry.*

3.3. *The Committee submitted a report on transition finance, providing its recommendations on three parameters:*

i. *Scope of definition*
ii. *Policy and Regulation*
iii. *Financial Mechanism and Financial instruments*

Based on the recommendations of the expert committee, approaches adopted by the various jurisdictions/institutions, and further examination by the IFSCA, a consultation paper on the "Framework for Transition Bonds" was issued by IFSCA on April 08, 2025. The consultation paper on the "Framework for Transition Bonds" is placed at ***Annexure-I.***

3.4. *More than 50 comments from over 10 institutions have been received on the consultation paper. Details of the comments/suggestions received from public along with our comments are placed at* ***Annexure-II.***

3.5. *A meeting was held with the Expert Committee on Climate Finance on June 09, 2025, to deliberate on the draft proposal and comments as received from the public. Broadly, the comments were received under the following heads:*

i. *Components of credible transition plan*
ii. *Third party verification/certification*
iii. *Disclosure requirements*
iv. *Use of Carbon Credits*
v. *Recognize additional taxonomies/roadmaps*

vi. Post issuance verification

vii. Removal of Scoring/rating forms from the external review

The committee upon deliberations agreed with the revised framework proposed by IFSCA and made recommendations on few specific areas. The minutes of the meeting as approved by the Chairperson of the Committee are placed at ***Annexure-III.***

3.6. The revised framework is in line with the final recommendations of the Expert Committee except for the following:

i. As part of the proposal to rely on reputed taxonomies / technology roadmap, the committee also recommended to recognize Australian Sustainable finance taxonomy. However, upon review, it is noted that the said taxonomy has not been published by the Australian government. As and when the Australian government publishes the taxonomy, IFSCA may recognize the Australian Sustainable finance taxonomy.

ii. The committee also recommended that issuers should make annual disclosures until the maturity of the bond and not only till full utilization of proceeds. However, to take into account a situation where an issuer defaults on its obligation at the time of maturity, we may make the annual disclosure obligations till the redemption proceeds of the bond are paid to the investors.

4. Proposed framework

4.1. Based on the recommendations of the Expert Committee on Climate Finance set up by the IFSCA, comments made by public in response to the consultation paper, further analysis of the global development on the subject, and keeping in mind the needs of developing countries such as India, a draft "Framework for Transition Bonds" is prepared and placed at ***Annexure-IV.*** *The key aspects of the proposed framework are as under:*

Key aspects of the Framework for Transition Bonds	
Entity-Level Requirement	*Issuer shall have a credible transition plan, in line with Paris Agreement. Common elements based on the components suggested by various institutions such as CBI, GFANZ, TPT and CDP have been considered. The 6 elements which are proposed to be part of a credible transition plan are:* *a) Paris-aligned ambition and pathway (Transition plan alignment with either 1.5°C or 2°C pathways)* *b) Robust decarbonization strategy and action plan (Implementation strategy)* *c) Quantified, time-bound GHG reduction targets (Science-based targets)* *d) Strong governance (Accountability mechanism)* *e) Stakeholder and value chain engagement* *f) Transparency (public disclosure)*
Alignment with Recognized Taxonomies / Technology Roadmap	*Issuers shall align with any of the following recognized taxonomies/technology roadmap:* *i. ASEAN Taxonomy for Sustainable Finance* *ii. Climate Bonds Taxonomy* *iii. EU taxonomy for Sustainable Activities* *iv. IEA Technology roadmap(s)* *v. Technology Roadmap developed by Japan's METI* *vi. Singapore-Asia Taxonomy for Sustainable Finance* *vii. Taxonomy(ies)/technology roadmap(s) as may be specified by the Government of India* *viii. Any other taxonomy recognised by IFSCA*

Key aspects of the Framework for Transition Bonds	
Mechanism for External Review	*The issuer shall appoint independent external reviewer(s) to ascertain that the proposed issuance is in alignment with the IFSCA 'Framework for Transition Bonds'. Further, the independent external reviewer(s) may take one or more of the following forms:* • *Second Party Opinion* • *Verification* • *Certification*
Disclosure Requirements (based on ICMA's Climate Transition Finance Handbook)	*The proposed framework mandates the issuers various pre-issuance and annual disclosures, based on the guidelines provided by the ICMA's Climate Transition Finance Handbook under the four following heads.* • *Transition Plan & Governance Disclosure* ➢ *Broadly covers the disclosure on an issuer's transition plan, climate transition strategy, disclosures on short, medium, and long-term GHG emission reduction targets and disclosures on governance mechanisms that provides clear oversight of an issuer's climate transition strategy.* • *Business Model Environmental Materiality* ➢ *Covers the disclosure on the materiality of climate-related eligible projects including on disclosures of Scope 3 emission when possible* • *Science-Based Climate Transition Strategy* ➢ *Broadly covers the disclosures on scenario utilised and methodology applied (e.g., ACT, SBTi, IEA etc.) and where third-party trajectories are not available, disclosure on internal methodologies including the disclosures on carbon offsets. Issuers have also been encouraged to get the targets validated by external reviewers.*

Key aspects of the Framework for Transition Bonds	
	• *Implementation Transparency* ➢ *Broadly covers the disclosures on CapEx roll-out plan consistent with the overall transition strategy, disclosures on phase-out plan, disclosure on the lock-in of emission from an issuer's key assets and products, etc.*

5. Proposal

5.1. The Authority may consider and approve the proposed "Framework for Transition Bonds" to be issued by way of circular under the International Financial Services Centres Authority Act, 2019, read with regulations 75(1) and 130(1) of the IFSCA (Listing) Regulations, 2024.

5.2. The Authority is further requested to authorize the Chairperson to take necessary, consequential and incidental steps to operationalize the proposed framework. Considering the continuous developments in this emerging area, further development of taxonomies in India and other countries, the Chairperson may be further authorised to approve suitable changes in framework.

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Annexure I*: Consultation Paper on the “Framework for Transition Bonds” is available on IFSCA website at www.ifsca.gov.in*

Annexure II*: Comments/suggestions received from public on the Consultation Paper on the “Framework for Transition Bonds” along with our comments are available on IFSCA website at www.ifsca.gov.in*

Annexure III*: The minutes of the meeting has been excised for the reasons of confidentiality*

Annexure IV

Draft Framework for Transition Bonds

1. *International Financial Services Centres Authority (IFSCA) recognises the pivotal role of ESG-labelled debt securities (Green Bonds, Social Bonds, Sustainability Bonds, Sustainability-linked Bonds) in financing sustainable development and transition to a low-carbon economy. In line with this, a regulatory framework for Green, Social, Sustainable and Sustainability-linked Bonds was brought in by IFSCA as part of its Listing Regulations. Presently, through this framework, the GIFT-IFSC has also witnessed listing of around USD 15.43 Bn ESG-labelled debt securities, accounting for ~25% of the total USD 65.1 Bn listed as of April 2025.*

2. *Globally, the sustainable debt market has grown to USD 5.4 Tn as of September 2024*[8]*. However, capital mobilization for climate action remains concentrated in certain sectors. Notably, 75% of green debt issuance is directed toward energy, buildings, and transport*[9]*, while hard-to-abate sectors responsible for 40% of global greenhouse gas (GHG) emissions struggle to access financing. These sectors inter alia cover steel, cement, heavy duty transport, aviation, and shipping, whose decarbonization is essential for achieving global net zero emissions. While green finance has been instrumental in supporting sectors such as renewable energy, energy-efficient buildings, and clean transport, its scope is often limited to projects that generate immediate or near-term carbon reductions. Thus, hard-to-abate sectors that require a phased transition face challenges in securing finance, despite their commitment to long-term decarbonization.*

3. *Transition Finance is emerging as a critical enabler to bridge this gap, providing an attractive mechanism for hard-to-abate sectors to raise funds for their brown-to-green transformation.*

4. *Based on the recommendations of the Expert Committee on Climate Finance set up by the IFSCA, comments made by the public in response to a consultation paper, further analysis of the global development on the subject, and keeping in mind the needs of developing countries such as India, the IFSCA hereby specifies the "Framework for Transition Bonds" as under:*

Eligible Activities

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[8] https://www.climatebonds.net/files/reports/cbi_mr_q3_2024_01c.pdf
[9] https://www.climatebonds.net/market/data/#use-of-proceeds-charts

5. *The activities classified as "Transition" under any of the following taxonomies/technology roadmap, shall be eligible to issue and list transition bonds on the stock exchanges in IFSC:*

   i. *ASEAN Taxonomy for Sustainable Finance*
   ii. *Climate Bonds Taxonomy*
   iii. *EU taxonomy for Sustainable Activities*
   iv. *IEA Technology roadmap(s)*
   v. *Technology Roadmap developed by Japan's METI*
   vi. *Singapore-Asia Taxonomy for Sustainable Finance*
   vii. *Taxonomy(ies)/ technology roadmap(s) as may be specified by the Government of India*
   viii. *Any other taxonomy recognised by IFSCA*

Transition Plan

6. *An issuer shall have a credible transition plan at the entity level. The transition plan should, inter alia, include the following elements:*

   a. *Paris-aligned ambition and pathways: The plan shall outline clear emission reduction milestones within specified timeframes and the said transition plan shall be aligned with Paris Agreement goal to limit global temperature rise to well below 2°C above pre-industrial levels, with efforts to keep it within 1.5°C*

   b. *Robust decarbonization strategy and action plan: Transition plan shall detail a comprehensive decarbonization strategy, supported by concrete and sector-specific actions to achieve emissions reductions. This includes a clear articulation of technology deployment, operational changes, investment plans, and indicative timeline(s) for phasing out high-emission assets, if possible.*

   c. *Quantified, time-bound GHG reduction targets: The plan shall include science-aligned, quantified greenhouse gas (GHG) reduction targets that are time-bound and cover Scope 1 and Scope 2 emissions. These targets must align with net-zero ambitions and include interim milestones to track progress. Scope 3 emissions may be addressed in a comprehensive and transparent manner by the issuer when it is possible.*

   d. *Strong governance: Transition plan should include board-level oversight of the transition strategy, clear assignment of responsibilities for climate-related decisions, and integration of climate risk into enterprise risk management.*

e. *Stakeholder and value chain engagement: The plan shall demonstrate active engagement with key stakeholders, including suppliers, customers, employees, and other actors across the value chain. It shall outline how the issuer collaborates with partners to reduce emissions and support shared climate goals. The issuer may consider undertaking capacity building initiatives with relevant stakeholders to support effective implementation of its transition plan.*

f. *Transparency: The issuer shall commit to publicly disclosing its transition strategy, targets, progress, and the methodologies used to measure emissions and assess climate risks. The plan shall also set out a clear framework for transparently reporting on progress, key assumptions, monitoring mechanisms, and accountability structures.*

Independent external reviewer

7. *The issuer shall appoint independent external reviewer(s) to ascertain that the proposed issuance is in alignment with the IFSCA 'Framework for Transition Bonds'.*

8. *The appointment of external reviewer shall be in compliance with the conditions as mentioned in the Regulations 76(3) of IFSCA (Listing) Regulations, 2024.*

9. *The independent external reviewer(s) may take one or more of the following forms:*

   (a) Second Party Opinion;
   (b) Verification;
   (c) Certification

   The issuer shall ensure that the details regarding the independent external reviewer(s) are adequately disclosed and easily accessible to the investors.

Disclosures

Initial Disclosures

10. *The issuer needs to make initial disclosures as per the Regulations 70 and 77 (1) of IFSCA (Listing) Regulations, 2024.*

11. *The issuer shall make the following additional disclosures in the offer document or information memorandum, as the case may be, in respect of Transition labelled debt securities.*

   A. *Transition Plan & Governance Disclosures*

      i. *Disclosure on an issuer's transition plan or climate transition strategy. The strategy should address all the relevant material aspects of issuer's business.*

      ii. *Disclosures on short, medium, and long-term GHG emissions reduction targets, which are quantitatively measurable, aligned with the latest available methodology and the Paris Agreement along with baseline year.*

      iii. *Disclosures on governance mechanisms that provide clear oversight of an issuer's climate transition strategy, including management/board level accountability.*

      iv. *Disclosure on broader sustainability strategy to mitigate relevant environmental and social externalities. Additionally, the issuers are encouraged to align their sustainability strategy with United Nations Sustainable Development Goals (UN SDGs).*

   B. *Business model environmental materiality*

      i. *Disclosure on the materiality of climate-related eligible projects and the overall emissions profile of an issuer.*

   C. *Climate transition strategy to be 'science-based'*

      i. *The issuer shall make disclosures on scenario utilised and methodology applied (e.g., ACT, SBTi, IEA, etc). Issuers are further encouraged to validate their transition targets / pathways through organizations such as the Science Based Targets initiative (SBTi), or by aligning with recognized scientific methodologies (e.g., IEA Net Zero Emissions Scenario, ACT Pathways). When third-party trajectories are not available, issuers shall provide disclosure on the industry peer comparison and/or internal methodologies/historical performance.*

   D. *Implementation transparency*

i. *Disclosures on CapEx roll-out plan consistent with the overall transition strategy and how it communicates CapEx decision-making within the organisation.*

ii. *Disclosures on phase-out plan regarding activities/products incompatible with the climate transition strategy.*

iii. *Disclosure on a qualitative and/or quantitative assessment of the potential locked-in GHG emission from an issuer's key assets and products.*

Annual Disclosures

12. *The issuer shall make disclosures as per the Regulations 78 (1) of IFSCA (Listing) Regulations, 2024.*

13. *The issuer shall provide the following additional disclosures to the recognized stock exchange(s), at least on an annual basis, until the redemption proceeds of the bond are paid to the investors.*

A. *Transition Plan & Governance Disclosures*

i. *Report progress against climate transition strategy, which inter-alia covers:*

a) *Annual GHG emissions reduction*
b) *Progress on committed GHG emission reduction targets*
c) *% CapEx allocated to GHG emission reduction projects vs total CapEx*

Issuers may refer to global standards such as International Sustainability Standards Board (ISSB) for reporting on key metrics/indicators.

B. *Business model environmental materiality*

i. *An indicative timeline for reporting on Scope 3 emissions shall be disclosed by the issuer when it is possible and based on the timeline the issuer shall endeavour to report on Scope 3 emissions.*

C. *Climate transition strategy to be 'science-based'*

i. *Report progress focused on any emissions reduction benchmarking or validation.*

ii. Disclosure on the use of carbon capture technology and disclosure on nature, volume, and role of carbon offsets in achieving stated targets, if applicable. Carbon offset shall be aligned with Voluntary Carbon Markets Integrity Initiative (VCMI)/Integrity Council for the Voluntary Carbon Market (ICVCM) standards and used solely for residual emissions. For this purpose, the issuer may buy carbon credits under the voluntary markets either from India or foreign jurisdictions for the purpose of emissions which are "unavoidable" under the current technological and economic constraints.

D. Implementation transparency

i. Any change from the initial disclosures made in terms of paragraph 11(D) may be suitably disclosed, along with details of the deviation and the plan to take corrective action.

ii. Issuers may consider adopting digital Measurement, Reporting, and Verification (MRV) platforms, or similar technologies to enhance real-time transparency and comparability.

14. In reference to the disclosure requirements, issuers may consider referring to ICMA's Climate Transition Finance Handbook for further guidance. Issuers are further encouraged to undertake verification of annual disclosures to enhance credibility and transparency.

15. The circular is issued in exercise of the powers conferred by Section 12 and 13 of the International Financial Services Centres Authority Act, 2019, read with regulations 75(1) and 130(1) of the IFSCA (Listing) Regulations, 2024.