Transition Finance Council

By email: transitionfinancecouncil@cityoflondon.gov.uk

19th September 2025

Dear Transition Finance Council,

RE: BVCA Feedback on Entity-level Transition Finance Guidelines

With a membership of around 600 firms, the BVCA represents UK-based Private Capital, as well as the wider ecosystem of professional advisers and investors. Private Capital consists of Private Equity and Venture Capital which makes long-term investments to grow British businesses and build a better economy. Private credit and venture debt also provide active and engaged debt finance to businesses. The Private Capital industry backs 13,000 UK businesses, nine in ten of which are small or medium-sized enterprises (SMEs). Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP. In 2024, £29.4bn was invested by Private Capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024, located outside of the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

Role of Private Capital in the Net Zero

The UK's Private Capital industry has a leading role to play in the global challenge of eliminating the causes and effects of climate change. Private Capital is a global industry, with our members actively investing and diversifying their portfolios worldwide. The industry stands at the unique intersection of deploying capital, investing for the long term, and helping to shape the strategy of investee companies. This allows Private Capital to play a leading role in ensuring portfolio companies adapt to the global climate crisis, embedding environmental and social considerations into businesses across the UK economy as well as invest into and help grow the innovative businesses of tomorrow.

According to World Economic Forum (WEF) data SMEs are responsible for approximately 60% of global business emissions, emphasising the importance of decarbonising this market. Moreover, these companies are often critical players in the supply chain of large corporations and therefore their decarbonisation is critical as part of wider net zero goals. As either majority or significant minority owners, principally of unlisted, fast-growing SMEs (which account for nine in every ten UK companies receiving private investment), Private Capital is well-placed to drive their transition and reach parts of the UK and global economies that public markets cannot. This is principally done in two ways:

- The industry's "active ownership" model allows it to help its portfolio companies, across sectors, to embed environmental considerations and reduce the emissions intensity of their operations; and
- The industry's backing of innovative companies which are needed to combat climate change and support businesses to transition to a low carbon.

Whilst the transition to a net zero economy and increase in regulation is driving the increase in green investment, there is also increasing evidence that integrating sustainability makes for a smart business strategy and drives value creation as well as resilience. The Private Capital model needs to be sustainable as it considers how businesses perform today under one firm's ownership but also must be informed by the needs of future owners in the years ahead. Those years will be drastically impacted by climate challenges, so enabling innovative decarbonisation now will be beneficial for the future bottom line.

Private Capital's interplay with Transition Planning

The interplay between private capital and transition planning is becoming increasingly central to global decarbonisation efforts. The BVCA continues to emphasise that transition finance must support all sectors of the economy. As the representative body for UK Private Capital companies investing in SMEs, (key contributors to both UK economic activity and global emissions) we highlight the importance of enabling SME transition efforts alongside those of hard-to-abate sectors.

The Council's guidelines aim to create a credible framework for allocating capital to entities transitioning towards net zero, ensuring that investments are both impactful and resilient against greenwashing risks. Private capital can play a pivotal role in operationalising these principles. The transition to a low-carbon economy is estimated to require trillions in investment and private markets are uniquely positioned to deliver this scale of funding. Their long-term investment horizons, operational expertise and strategic agility allow them to support companies not only financially but also in transforming business models to align with sustainability goals. Private Capital firms are embedding sustainability into portfolio companies' core value propositions, enhancing their commercial viability and positioning them for successful exits.

Furthermore, a lot of private capital is being deployed across the transition supply chain. It is crucial to recognise that this deployment is not just a matter of volume but also strategic enablement. The transition to a net-zero economy involves complex, sector-specific transformations that require tailored financial solutions, long-term commitments and a tolerance for innovation risk. Private capital is uniquely positioned to meet these demands due to its flexibility, capacity for active ownership and ability to drive operational change.

The Transition Finance Council's guidance is designed to support this dynamic by providing a clear framework for assessing the credibility of transition plans, thereby enabling more confident and targeted capital allocation. By aligning financial flows with credible decarbonisation pathways, the guidance may help ensure that private capital is directed toward entities capable of delivering real climate impact. This alignment is essential not only for achieving net zero goals but also for maintaining investor confidence and market integrity in the face of increasing scrutiny. However, it is equally important that such guidance remains proportionate and interoperable, delivering value without becoming overly onerous, costly or duplicative. Striking this balance is key to ensuring widespread adoption and sustained impact.

Summary of Key Points

The BVCA support the effort the Council is making to guide companies toward more effective and streamlined transition plan reporting. Clear and actionable guidelines will have the potential to demystify what constitutes a credible transition plan, provided they are well-articulated and supported by practical, real-world use cases relevant for private markets. By enhancing clarity and usability, these guidelines have the potential to help bridge the gap between ambition and implementation. Below, we summarise our key points for consideration:

- It should be ensured the guidelines are designed to be proportionate, scalable and applicable across asset classes and jurisdictions, including emerging markets and small-to-medium sized entities. We are pleased that there is **an emphasis on a "best-efforts" approach**, especially where data gaps or resource constraints exist. We see this as a positive way forward as it reflects best practice and is pragmatic.
- To support interoperability, the Guidelines could benefit from **explicit mapping or cross-referencing to TPT elements, alongside educational case studies,** helping users apply both frameworks in tandem. Whilst noting that the Guidelines are not a disclosure framework, they are intended to complement existing ones and this relationship should be made as clear as possible.
- **A distinct "Principle" or "Universal Factor" focused on materiality** would enhance the Guidelines by ensuring that efforts are relevant to the specific risks and opportunities faced by different entities. This would align with the TPT's emphasis on strategic ambition and stakeholder impact and help avoid "paper decarbonisation" by focusing on substantive change.
- **Including case studies** that illustrate how the Principles and Universal Factors are applied in practice would be highly beneficial, especially for private companies, as real-world case studies can provide valuable insights and practical guidance for embedding best practices effectively. There are various real-world examples that show how transition finance can be tailored to different contexts and sectors. These real-world applications can help demystify the guidelines and provide actionable insights for entities at various stages of their transition journey.

Responses to questions

Section 1.5: Use cases

1. **Do you agree with the potential users and use cases of the Guidelines? Are there any you disagree with or any additional users/use cases we have missed?**

We agree with the potential use cases of the Guidelines. The use cases outlined are comprehensive, encompassing both asset owners/managers and real economy corporates, including SMEs. It is encouraging to see this breadth of applicability.

We also welcome the emphasis on how the Guidelines complement the TPT Disclosure Framework. By introducing normative expectations around ambition and action, they offer a practical tool for assessing the credibility of transition planning, even for entities that have not yet fully developed or disclosed their plans. This flexibility is important, as it accommodates a range of starting points and contexts, including medium-sized enterprises and those operating in emerging markets and developing economies (EMDEs).

It would, however, be beneficial to provide a clearer understanding of how this guidance will be applied alongside the Transition Plan Taskforce framework to remove any concern that it increases reporting burden (albeit with added strategic value) rather than support it.

2. **If applicable, please explain how you anticipate using the Guidelines? (This can be any type of use case)**

Not applicable.

Section 3.1: Global Interoperability

1. **Which standards or frameworks are most important for the Guidelines to align with to ensure interoperability?**

To ensure interoperability, alignment with key standards and frameworks is essential. Key frameworks include the Transition Plan Taskforce (TPT) and ISSB's Climate-related Financial Disclosures, which together provide a strong foundation for consistent and credible climate-related reporting.

Additionally, alignment with the EU Green Taxonomy is critical. A lack of compatibility between the transition taxonomy and the EU Green Taxonomy could lead to confusion for stakeholders navigating both frameworks.

It is helpful that that the Guidelines acknowledge this by contemplating the use of taxonomies designed to be compatible with the Paris Agreement as one of several methodologies for assessing transition credibility. Importantly, the taxonomy applied should also be appropriate to the jurisdiction in which the entity operates.

Where taxonomies are used, they should be applied coherently. This includes not only technical screening criteria but also provisions such as 'do no significant harm' and 'social safeguards'. A robust transition taxonomy may also include time-bound requirements for certain activities and stipulate that assets be constructed to be 'transition ready'. Where such requirements exist, they should be observed to maintain credibility and consistency.

2. **Do you have concern that the Guidelines conflict or are inconsistent with other frameworks and taxonomies you use? If so, what conflicts or inconsistencies are you most concerned about?**

There may be conflicts with the EU Green Taxonomy, particularly around definitions of 'green' activities and alignment criteria. Therefore, it's important that the Transition Plan Guidelines ensure consistency to avoid confusion in reporting and implementation for those aligning with both.

Sections 3.2 & 3.3: Proportional Application and Alignment to 1.5°C

1. **Do the Guidelines appropriately balance the requirements for ambition with proportionality for entities in different contexts? Is it sufficiently clear? Are there changes you consider necessary to the Credible Pathway definition?**

The Guidelines appear to strike a reasonable balance between ambition and proportionality, particularly in their treatment of SMEs. It is encouraging to see that SMEs are explicitly considered in the proportionality discussion. However, the inclusion of multiple external frameworks and guides could benefit from clearer articulation of how these align with the Transition Finance Guidance.

The reference to the UK SME Voluntary Emissions Standard, developed by B4NZ and the Broadway Initiative, is particularly relevant. This Standard is designed to align with UK Government procurement policy on carbon reduction plans for major contracts, as well as other public procurement frameworks. By offering a practical and proportionate approach for SMEs to report consistent emissions data, it not only supports compliance with public sector requirements but also enhances SMEs' eligibility for transition finance. Encouraging adoption of this Standard could help secure more uniform and reliable climate-related information across SME value chains, making it easier for capital providers to identify credible SMEs with the potential to deliver measurable decarbonisation.

Other jurisdictions are also developing frameworks to support SMEs in this space. These include the EU's Voluntary Sustainability Reporting Standard for SMEs (VSME) developed by EFRAG, Malaysia's Simplified ESG Disclosure Guide (SEDG), and the OECD Platform on Financing SMEs for Sustainability, which, while not a formal standard, is working to overcome barriers to SME sustainable finance.

To improve clarity and usability, the Guidelines could benefit from a more explicit explanation of how these frameworks complement or align with the Credible Pathway definition. It would also be helpful to provide clearer guidance on how capital providers can use these tools to assess SME eligibility for transition finance. Furthermore, consideration could be given to adapting or tiering the Credible Pathway definition to better reflect the realities of SMEs at different stages of their transition journey. This would help ensure that ambition is maintained while enabling proportional and inclusive access to transition finance across diverse entity contexts.

2. **Are there any additional challenges specific to transition finance for entities in emerging markets/developing economies (EMDEs) that haven't already been outlined in this section?**

No response.

3. **How would you propose the Guidelines could better address challenges for entities in EMDEs? Can you provide examples of tools you have used or case studies in an EMDE context that helped address those challenges? (e.g. other frameworks, estimation methodologies, engagement methods etc).**

No response.

4. **Do you think these Guidelines are useful and appropriate for medium-sized entities who are near the start of their transition journey and have potential to be applicable for transition finance? What improvements could we make to improve application for medium-sized entities?**

In our response[1] to the Call for Evidence on *Scaling Transition Finance through Sector Transition Roadmaps* we emphasised the need and role for roadmaps to support the transition of all parts of the economy, as detailed below. As the representative body of investors who invest into SMEs (which represent a sizeable portion of the global emissions and the UK economy), we consider that transition efforts of SMEs should be enabled alongside the hard-to-abate sectors. Roadmaps for this part of the economy need to be clear, accessible, and reflective of the transition nature of the environment. As well as being built on a foundation of incentive driven strategies to reward progress. The BVCA value its role as an associate member of the Transition Finance Council and are keen to engage and support the work being done and recognise the role that Private Capital can play in scaling transition finance.

Section 4.1: Introducing Principles and Factors

1. **Do you broadly agree with the structure of the Principles and Factors (i.e. the construct and relationship between them, rather than the Principles and Factors themselves)? Please explain your answer above and suggest how the structure could be made simpler to follow and more practical to implement.**

We broadly agree with the structure of Principles and Factors. Contextual factors can be defined as minimum practices to ensure the Principles are being met. As this question is specifically asking about the structure, we are content that the structure appropriately reflects how to meet the Principles of transition.

2. **Are the terms 'Principles', 'Factors,' 'Universal Factors' and 'Contextual Factors' fit for purpose? If not, are there other more intuitive terms for any of the above that could be used instead? Please provide reasoning for your suggestions.**

Yes, the terms "Principles'", "Factor", Universal Factors", and "Contextual Factors" are generally fit for purpose and are clearly explained within the guidance. They provide a structured and intuitive framework for understanding the components of transition finance.

Consideration should however be given to whether the term "Minimum Practices" or "Baseline Expectations" in place of "Universal Factors," and "Context-Specific Practices" or "Tailored Considerations" instead of "Contextual Factors" would help enhance the understanding of the term without always having to the read the guidance. These alternatives may offer slightly more intuitive language for some audiences, especially those less familiar with the term "factors."

Notwithstanding the above, the BVCA consider that the use of the term "Factors" would be appropriate and sufficiently flexible. It is however considered that introducing terms like "alignment" (e.g., "minimum alignment" or "contextual alignment") could lead to confusion, as "aligned" and "aligning" are used differently across various frameworks and taxonomies. Consistency in terminology across frameworks is key to avoiding misinterpretation.

[1] BVCA's response to the Transition Finance Council's Scaling Transition Finance through Sector Transition Roadmaps Call for Evidence

Section 4.2: Principles

1. **Do you agree these are the right Principles? If not, why? Which do you believe should not be Principles or which Principles are potentially missing?**

We agree that the proposed Principles are broadly appropriate and well-considered. The guidelines mention that "Contextual Factors may be relevant depending on the materiality of the issue to the entity or the policy environment in which it operates." However, we consider an additional and separate "Materiality" factor (or Principle) could strengthen the framework. Introducing a materiality Principle would encourage companies to focus their transition efforts on areas where they can deliver the most significant and immediate impact. This prioritisation is essential for ensuring that transition finance drives meaningful change, especially in sectors or activities with the highest emissions or transition risks.

2. **Does the Credible Ambition Principle, and its lock-in requirements (contained in the Implementation Factor) achieve the right balance between 1) driving decarbonisation and 2) acknowledging the energy security and development challenges of industrial operators in emerging markets? If not, are there builds or adjustments you would propose?**

Yes, we consider that the Credible Ambition Principle and its associated lock-in requirements within the Implementation Factor strike a reasonable and pragmatic balance. They appropriately drive decarbonisation while recognising the complex realities faced by industrial operators in emerging markets, particularly around energy security and development needs.

It is encouraging that the guidance incorporates flexibility, such as the provision: "Where external influences, such as policy incentives, affect the feasibility of an entity's transition planning, capital providers may want to understand how these impact the credibility of ambition." This nuance is important for private capital, as it allows investors to assess ambition in context by balancing long-term climate goals with short- and medium-term operational constraints.

Further clarity on how lock-in risks are assessed in relation to regional policy environments and infrastructure limitations could enhance usability for capital allocators. This would support more informed decision-making and help avoid unintended exclusions of credible transition pathways in emerging markets.

3. **In relation to the Addressing Dependencies Principle, what kind of guidance, if any, would be helpful for making judgements on dependencies that are sufficiently likely and significant enough that they could prevent the finance from being classified as transition finance?**

No response.

Section 4.3: Universal Factors

1. **Do you agree with the overall themes of the Universal Factors? (Interim Targets & Metrics, Implementation, Financial Viability, Engagement, Governance and Disclosure) If not, which Universal Factors are not universal and which Factors might be missing and why?**

We agree with the proposed overall themes of the Universal Factors.

2. **Do the Universal Factors set an appropriate threshold that is proportional for contextual differences (e.g. entities in emerging markets or SMEs)? If not, which Factors do you disagree with and why? Please comment on specific detail within the Factors where possible.**

The Universal Factors are well-articulated and provide a strong foundation. We particularly support the flexibility embedded within them, which allows for proportional application across different contexts, such as emerging markets or SMEs. The guidance acknowledges that usage will vary depending on the type of fund or institution. For instance, smaller transition funds may adopt the Factors as a minimum threshold, while larger passive funds might use them to assess the proportion of their portfolio qualifying as transition investments. Other institutions may apply the Factors to shape internal frameworks, benchmark market engagement, or inform credit and investment decisions. The emphasis on transparency in how the Factors are applied ensures accountability and adaptability across diverse financial contexts.

3. Should an entity that hasn't set a decarbonisation target on its material Scope 3 emissions be able to classify as transition finance? If yes, what other parameters/information would you look at to determine its credibility?

We recommend that entities without a decarbonisation target for their material Scope 3 emissions adopt a transparent and credible approach when seeking classification as transition finance. This ensures capital is directed toward organisations genuinely committed to decarbonisation, even if their strategies are still evolving. Not all businesses, particularly SMEs, have the resources and ability to quantify and influence their value chain to the same effect that large, listed organisations can. Scope 3 emissions are also not a material to all. To enable a credible transition we should be encouraging businesses to focus more on the process of starting to gather this information rather than on the need to have defined targets which would require credible and robust data sets. This is specifically laid out in the GHG Protocol's *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*[2] which states that, "In the initial years of scope 3 data collection, companies may need to use data of relatively low quality due to limited data availability. Over time, companies should seek to improve the data quality of the inventory by replacing lower quality data with higher quality data as it becomes available." Where robust Scope 3 emissions data is not available to support target-setting, companies should be encouraged to clearly explain the limitations preventing them from setting Scope 3 targets. They should also outline the steps they will take to improve data quality and coverage over time, particularly where Scope 3 emissions are material to their operations.

4. Which Universal Factors do you foresee being most difficult to evidence and why? How would you practically approach that challenge of evidencing?

The most challenging Universal Factors to evidence and the reasons why are evidenced below;

Financial viability:

For private capital funds, evidencing financial viability is particularly complex when transition plans rely on future contingencies. These plans often require assumptions about evolving market conditions, regulatory changes, and technological developments. This challenge is further compounded due to the way a private capital fund invests and grows: specifically a fund's portfolio composition will evolve over its lifecycle through acquisitions and exits. This dynamic nature means that the fund's portfolio exposures are continuously changing, making it difficult to assess financial viability in a static or point-in-time manner. In addition, creating a credible plan without referencing portfolio companies is limiting, yet incorporating them adds complexity, requiring a deep understanding of each company's transition strategy, which may not be readily available or standardised. The BVCA encourage the following considerations to enable a practical approach;

- Scenario analysis: Use multiple transition pathways (e.g. IEA Net Zero, NGFS scenarios) to model financial outcomes under different climate futures.

[2] Corporate Value Chain (Scope 3) Reporting Standard

- Portfolio-level assessments: Develop a framework to assess the financial impact of transition risks and opportunities across portfolio companies, even if they lack formal transition plans.
- Engage with portfolio companies: Encourage them to disclose climate-related financial information (e.g. TCFD-aligned reporting) and support capacity-building where needed.
- Use proxy data and benchmarks: Where direct data is unavailable, use sectoral benchmarks or peer comparisons to estimate financial viability.

Interim targets and metrics:

Setting and evidencing interim targets is complicated by the dynamic nature of regulatory frameworks and jurisdictional differences in net-zero reporting requirements. These inconsistencies make it difficult to align targets across geographies and ensure comparability. Additionally, the lack of harmonised methodologies for measuring progress adds to the challenge. The BVCA encourage the following considerations to enable a practical approach.

- Adopt global frameworks: Use internationally recognised standards like SBTi, PCAF, or TCFD to guide target-setting and ensure alignment with best practices.
- Jurisdictional mapping: Create a matrix of regulatory requirements across key geographies to identify overlaps and gaps, helping tailor targets accordingly.
- Dynamic updating: Build flexibility into the target-setting process to allow for regular updates as regulations evolve.
- Third-party verification: Where possible, seek external assurance or validation of metrics to enhance credibility.

Implementation:

Translating ambition into action is resource-intensive, especially when targets must be both science-aligned and financially viable. Many private firms and their portfolio companies have yet to adopt Science-Based Targets, due to cost and operational complexity vs. reward, making it difficult to benchmark or validate implementation efforts against climate science. This gap creates uncertainty around the credibility and robustness of transition plans. The BVCA encourage the following considerations to enable a practical approach;

- Phased implementation plans: Break down long-term goals into short-term, actionable steps with clear accountability and timelines.
- Capacity building: Provide tools, training, and guidance to portfolio companies to help them develop and implement their own transition strategies.
- Collaborative platforms: Join industry initiatives (e.g. GFANZ, Climate Action 100+) to share best practices and align efforts.
- Track progress transparently: Use dashboards or reporting tools to monitor implementation and adjust strategies as needed.

5. **For which Universal Factors (and/or specific criteria of the Universal Factors) would it be most useful to see a case study example of its application and why?**

Below we have laid out specific factors for which it would be most useful for Private Capital and the SMEs they invest in to have access to case studies:

Financial Viability

Why case studies are important:

- SMEs often operate with limited capital. Case studies showing how businesses of different sizes have financed sustainability transitions help illustrate scalable approaches.
- Real-world examples can show what levels of investment are feasible and what returns can be expected, helping SMEs make informed decisions.
- Seeing how others have navigated financial risks builds confidence and reduces uncertainty.

Metrics & Targets

Why case studies are important:

- SMEs benefit from examples of realistic, time-bound metrics that align with their operational capacity.
- Case studies can show how businesses have translated broad sustainability goals into measurable targets.
- Examples from similar industries help SMEs tailor metrics to their own context, avoiding generic or irrelevant indicators.

Implementation

Why case studies are important:

- Especially for criteria like "Do No Significant Harm," case studies can clarify how to assess and integrate these into day-to-day operations.
- SMEs need lean implementation models. Case studies can showcase low-cost, high-impact approaches.
- Practical examples help SMEs understand what skills, systems, or partnerships are needed to implement sustainability effectively.

6. **Are there any other comments you would like to make about the Universal Factors, including other frameworks or guidance that should be referred to?**

No response.

__**Section 4.4: Contextual Factors**__

1. **Do you agree with how and when Contextual Factors are considered? If not, how could it be made clearer?**

We agree with the approach detailed on how and when contextual factors should be considered.

2. **Are there any other comments you would like to make about the Contextual Factors, including whether any of the Contextual Factors should be Universal Factors or other frameworks or guidance that should be referred to?**

No response.

Section 5: Application of the Guidelines

1. **For which asset classes/financing structures would it be most useful to have additional implementation guidance on how the Principles and Factors could be applied? (please select multiple if appropriate, though please prioritise your selection, acknowledging the Council's limited resources to produce in-depth materials)**

We are of the opinion that it would be most useful to prioritise additional implementation guidance for asset classes and financing structures that are typically slower to adopt transition finance principles, particularly SMEs. These segments often face resource and capacity constraints, and tailored guidance could significantly accelerate their alignment with the Principles and Factors.

We are encouraged to see the Private Markets Decarbonisation Roadmap referenced, as it provides a valuable foundation. Building on this, further practical examples and sector-specific case studies would help bridge the gap between high-level principles and on-the-ground implementation.

2. **What other types of implementation guidance should the Council prioritise creating to support the ease of applying the Guidelines? Please give reasons for your choice.**

No response.

Other Feedback

1. **Please let us know if you have any other feedback or suggestions to improve the Guidelines.**

The Transition Finance Council should ensure that any findings from responses to the TFMR's call for evidence on sector transition roadmaps are considered when formulating the transition finance guidance.

Whilst noting the tight time frames that the Transition Finance Councial are working towards, the response window for this call for evidence was relatively short. In future, we would welcome a slightly longer engagement period where feasible, as this would enable us to provide a more comprehensive submission and identify additional relevant case studies. We would be happy to discuss this further, or any aspect of our response.

2. **We would be grateful for any case studies that have relevance to these Guidelines. For example, we are looking for examples of both success and failures of transition finance. Particularly where challenges have been faced, or where it has been difficult to assess whether an entity meets the requirements to qualify as transition finance. Where assessment criteria bear some resemblance to the Principles/Factors, we are very interested to know how they have been applied.**

No response.

The BVCA are supportive of the Transition Finance Council's drive to demystify transition finance for companies of all sizes and sectors. For further engagement or to explore perspectives on Private Capital, please feel reach out to Chris Khoury or Harriet Assem.

Yours sincerely,

Lucie Mills, Chair, BVCA Responsible Investment Advisory Group