



Interview on transition finance with **Guillaume Debauve**, Senior Regulatory Legal Officer at BNP Paribas

Q: What does transition finance refer to and what investors shall currently comply with on the regulatory side?

A: Transition finance refers to financing that can support investments in technologies, assets or other activities not covered by green finance, but which can lower emissions and shift towards alignment with long-term climate and sustainability goals. Industry guidelines (ICMA, LMA) and EU regulations (Taxonomy, revised SFDR 2.0 with a “transition” category)

address this. One point of attention: any transition claims shall be substantiated and free of greenwashing.

Q: Transition finance has become a central theme in sustainable investing. From the perspective of public markets, how do you define an appropriate transition investment strategy today?

A: Transition finance requires:

- Long term climate ambition translated into credible and ambitious short-, mid- and long-term GHG reduction targets with clear and transparent implementation disclosure (strategy and decarbonization levers), including financial planning aligned with climate goals (CAPEX & OPEX plans),
- Strong Governance to ensure delivery of the commitments, and ideally
- Consistent lobbying practices.

Q: In equity and fixed income portfolios, how do you distinguish between companies that are genuinely transitioning and those that are merely adjusting disclosures or narratives in response to regulatory pressure?

A: On the investee side, assessing environmental and social impacts is key - using proprietary methodologies and public documents (e.g. regulatory reporting). Investors must verify if companies have robust and transparent ESG and transition methodologies or even appropriate transition plans, as detailed in the previous question. Transition, meaning enhancing, requires a frequent monitoring. Governance buy-in is also critical: they shall back and supervise this transition.

Q: What role do engagement and stewardship play in transition-oriented strategies, particularly when investing in hard-to-abate sectors?

A: Engagement and stewardship are core to transition strategies. It helps assess and understand investee companies' transition plans and, for large shareholders, encourages them in these efforts. If the investee company's transition strategy is not improving or transition strategies still lack credibility, investors can vote against key proposals or divest, ensuring accountability and driving genuine decarbonisation. Filing shareholder resolutions can also be part of the tools used.

Q: Looking ahead, where do you see the most compelling transition finance opportunities in listed markets over the next few years – by sector, geography or asset class?

A: Transition finance is most critical in hard-to-abate sectors – steel, cement and natural gas - requiring heavy capital for near-zero technologies soon to be commercial or essential for energy transition. Geographically, EMDs lead – especially Southeast Asia and parts of Latin America, where financing demand is highest. Asset classes include equities, loans and transition-led bonds. For more details, you can refer to the recent IAE's “Scaling Up Transition Finance” report.