IFSCA AND TRANSITION FINANCING – A NEW SUNRISE FOR CMAs

Abstract

IFSCA has recently approved the regulatory framework for the issue and listing of transition bonds, which are being mooted to bridge the funding gap faced by entities in the Hard-to-abate sectors for decarbonisation. The article explains the conceptual framework of Transition Bonds, which are a sub-set of ESG labelled securities, gives a broad overview of the framework governing the transition bonds and seeks to create awareness about the potential role for the CMA professionals. The main objective here is to further sensitise the ever-evolving opportunities which are awaiting the CMAs offering a unique value proposition. Similarly, IFSCA as a regulator may consider it worthwhile to look upon the CMA professionals as a valuable resource in this arena. The article may be considered as a reading material by Cost and Management professionals abroad when they deal with transition financing opportunities in their respective countries.

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Context and Introduction

India, as one of the 196 signatories to the Paris Agreement in 2015, has committed to targets limiting global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels, with a Net-Zero deadline of 2070. As on July 10, 2025, 139 countries, covering 78% of global Gross Domestic Product (GDP) based on Purchasing Power Parity (PPP) and 76% of global GHG emissions, have adopted Net-Zero targets and around 1198 of the largest 1974 publicly traded companies now have Net-Zero targets.[1] The staggering ground reality with respect to Net-Zero targets is that globally we are staring at a funding gap estimated at USD 75 trillion and as regards India, the funding requirement as per current estimates is USD 10 trillion.[2]

ESG labelled debt securities

In the wake of awareness about Climate Change impacts and global warming, ESG labelled debt securities have shown significant traction, indicating the positive response of the investors to finance debt instruments floated by many governments and corporate entities for achieving net positive environmental and social impact.

[1] https://zerotracker.net/

[2] IFSCA Consultation Paper on "Framework for Transition Bonds" dated April 02, 2025

What are ESG labelled debt securities

ESG-labelled debt securities are financial instruments in the form of bonds, issued for raising capital to fund projects that align with ESG criteria. The object of issuing these securities is to enable initiatives that address climate change, social inequality, and other sustainability goals, while at the same time generating some returns on their investments that are reasonable enough to attract the investors.

Types of ESG labelled debt securities

Basically, there are four types of ESG labelled debt securities as under: -

Type	Focus
Green Bonds	Environmental Projects
Social Bonds	Social Impact Initiative / Projects
Sustainability Bonds	Combination of Environmental and Social Goals
Sustainability Linked Bonds	Interest rate linked to ESG performance of Issuer

Source: IFSCA Consultation Paper on "Framework for Transition Bonds" dated April 02, 2025

As at end Q3 2024, cumulative listing of ESG labelled debt securities stood at USD 5.4 Trillion, with break-up as under[3]: -

Category	**Cumulative Since 2006 (USD bn)**	**% to Total**
Green Bonds	3366.3	61.98%
Social Bonds	1052.9	19.39%
Sustainability Bonds	956.5	17.61%
Sustainability-linked bonds	55.4	1.02%
Total	**5431.1**	**100.00%**

Source: IFSCA Consultation Paper on "Framework for Transition Bonds" dated April 02, 2025

[3] Ibid …

There is no doubt about the role of the ESG labelled debt securities so far in channelisation of much needed funds for climate finance. However, when one looks at the sectors in receipt of green funding, it is noticed that they are concentrated to sectors or projects that are at or near Net Zero. Sectors such as Energy, Building and Transport are estimated to have received around 75% of the green funding. On the other hand, sectors such as Mining, Steel, Cement, Heavy duty Transport, Aviation and the like believed to be contributing to 40% of Greenhouse Gases (GHG) globally are facing difficulties in having access to finance. And from the point of view of the respective economies, particularly developing countries which have to give priority to basic industrialisation, de-carbonisation is accorded lower priority. This limits the amount of funds available for de-carbonisation of the sectors to be categorised as "Hard to Abate". De-carbonisation of such "Hard to Abate" sectors is a pre-requisite to achieve "Net Zero" goals. It is here that financing through Transition Bonds has the potential to bridge the gap.

Transition Bonds

Transition Bonds as a source of financing De-Carbonisation projects can be traced to July 2017, when Castle Peak Power Finance Company Limited, based in Hong Kong raised US$ 500 Million in the first instance to finance its 550 MW combined cycle gas turbine unit. As a follow-up, the said company raised US$ 650 Million in two tranches in June 2020 of US$ 350 Million and in February 2021 of US$ 300 Million respectively to finance projects for transition to lower carbon energy sources.

Transition bonds are basically debt securities issued by companies operating in sectors where Carbonisation is "Hard to Abate". It helps them to finance projects that facilitate their transition to more sustainable business models or to reduce their environmental impact, including in terms of reducing their greenhouse gas emissions.[4]

Transition bonds are relevant as a means of financing for industries with significant carbon footprints, helping them move towards a lower-carbon future

[4] https://bpp.sustainabilityunlocked.com/discover/glossary/transition-bonds

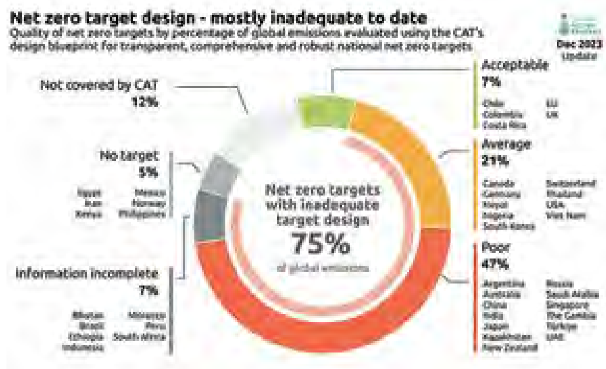
What distinguishes Transition Bonds from Green Bonds is in their focus. While Green Bonds are used to finance projects with clear, pre-existing environmental benefits, Transition bonds are designed to support companies in their journey to reduce their environmental impact including de-carbonisation, even if their current emission levels are high.

Transition bonds also differ from Sustainability Bonds in the sense that they are a subset of sustainable finance options and focusses on tackling the challenges of decarbonizing carbon-intensive industries, while Sustainability Bonds can be issued to finance projects having environmental as well as social focus.

Transition Bonds – Performance and Future Outlook

Consequent to increasing demand for sustainable finance and stakeholder pressures, the size of global transition bond market is estimated at USD 42.8 billion in 2024.[5] It is projected that the market is set to grow to a level of USD 297.6 billion in 2033, denoting a CAGR of 21.7%. As governments and business entities pursue their ESG strategy working towards Net-Zero targets the projected growth is encouraging. However, it has been noticed that as of date, Transition Bonds account for less than 1% of the total ESG labelled Debt market. It appears that concrete steps are required to be taken to address the challenges engulfing the Transition Bonds and also make it a more attractive option to really achieve the projected numbers, apart from evaluating at a micro level, whether the projects are capable to achieve the targeted de-carbonisation towards Net-Zero.

It is incumbent upon the governments and the regulators in the respective jurisdictions to ensure that there is a proper framework for Net-Zero target design, which is a pre- requisite to assess the progress at the micro level. Climate Action Tracker (CAT) had carried out a "good practice" net zero analysis which covered the design of net zero targets of various countries. It has highlighted that Net Zero targets with inadequate target design constituted 75% of global emissions remains insufficient. Only five of the 41 countries covered by the CAT, responsible for 7% of global GHG emissions, have defined their net zero targets in a manner the CAT rates as 'acceptable' in terms of scope, architecture, and transparency. Another nine countries, responsible for 21% of global emissions, fall into the 'average' category. [6]



Source: https://climateactiontracker.org/global/cat-net-zero-target-evaluations/#section__country-evaluations-as-of-november-2023

It can be seen that India is up against the need for a gigantic mission with respect to converting Net-Zero targets into policies and actions that will truly result in reduction of emissions. This is also true for most of the countries including developed nations.

IFSCA and Transition Bonds

The International Financial Services Centres Authority (IFSCA) is actively promoting transition bonds within the Gujarat International Finance Tec-City (GIFT City) to facilitate India's shift towards a sustainable economy. IFSCA aims to position GIFT City as a global hub for sustainable finance, attracting international capital to support India's net-zero ambitions and Sustainable Development Goals (SDGs). IFSCA recognizes the importance of transition finance to help "hard-to-abate" sectors reduce their emissions.

On April 02, 2025 the IFSCA released a consultation paper outlining the proposed regulatory framework for Transition Bonds seeking public comments by April 29, 2025. On June 24, 2025, the IFSCA approved the issue of framework for issuance and listing of the Transition Bonds under the IFSCA (Listing) Regulations, 2024. The "Framework for Transition Bonds"

[5] https://growthmarketreports.com/report/transition-bond-market

[6] https://climateactiontracker.org/global/cat-net-zero-target-evaluations/#section__country-evaluations-as-of-november-2023

was prepared based on the recommendations of the Expert Committee on Climate Finance set up by the IFSCA, public comments in response to the consultation paper released on the said April 02, further analysis of the global development on the subject, and keeping in mind the needs of developing countries such as India.

IFSCA framework for transition bonds - Key Aspects

The following are some of the key features of the IFSCA framework for transition bonds: -

1. Credible Transition Plans:

Issuers must ensure that they have a credible and well-defined transition plan which is aligned with the Paris Agreement goals.

2. SMART targets:

The transition plan must outline specific, measurable, achievable, relevant, and time-bound (SMART) targets for reduction of emission.

3. Alignment with Global Standards:

Transition plans as well as projects sought to be funded by transition bonds must be in alignment with globally recognized taxonomies, so that it is possible to compare transition efforts across jurisdictions.

As per IFSC framework, the activities of the project should be classified under "Transition" by any one of the following technology roadmaps / taxonomies: -

i. ASEAN Taxonomy for Sustainable Finance ;
ii. Climate Bonds Taxonomy ;
iii. EU taxonomy for Sustainable Activities ;
iv. Singapore-Asia Taxonomy for Sustainable Finance ;
v. Japan (Technology Roadmap for Transition Finance) ;
vi. Taxonomy(ies) specified by Government of India and
vii. Any other taxonomy recognised by IFSCA.

4. Independent External Review:

Independent external review of the Issuer's transition plan and the projects funded through transition bonds should be carried out by a third party having knowledge of the relevant industry and expertise in climate finance.

The independent external review may take one or more of the following forms: -

a. Second Party Opinion ;
b. Certification ;
c. Verification and
d. Scoring / Rating

The purpose of the independent external review is to mitigate the risk of Greenwashing and to ensure that proceeds of transition bonds are deployed for genuine de-carbonisation and not for superficial green initiatives.

5. Disclosure Requirements:

Issuers of transition bond shall make comprehensive disclosures both at the time of issue of the bond as well as on an annual basis throughout the life of the bond. The following disclosures are included: -

a. Details on the transition plan of the Issuer ;
b. The use of proceeds ;
c. The environmental impact of the projects financed and
d. The progress towards achieving the targeted emission reduction.

6. Focus on Hard-to-Abate Sectors:

The framework is meant for hard-to-abate sectors such as Steel, Cement, Aviation, Shipping and Heavy-Duty transportation all of which are known to contribute significantly to greenhouse gas emissions and face challenges in decarbonization.

It is significant to note that the IFSCA framework is more or less in line with the SEBI regulations for transition bonds. Transition Bonds are a sub-category of green debt securities under the SEBI framework. SEBI also mandates disclosure of a transition plan and a "Parivartan" score in order to make an assessment of the velocity of investments in achieving net-zero targets.

Role of Sustainable Standards Board of ICMAI

The Institute of Cost Accountants of India (ICMAI) constituted the Sustainability Standards

Board (SSB) in the year 2022 with the object of enabling and equipping the Cost and Management Accountants (CMA's) to play an active role in the ESG domain namely Sustainability Reporting / Assurance functions, Climate finance, ESG Assessments, ESG Due Diligence, ESG Ratings and other emerging areas as and when they come.

Further SSB has come out with standards namely ISS1 and ISS2 which while drawing upon the relevant features of global frameworks such as IFRS, GRIs and TCFD carries a unique focus by incorporating cost and management accounting dimensions. SSB conducts training and capacity building programmes in addition to research initiatives which are beneficial for the industry. Going forward these initiatives should be made more inclusive.

The SSB can play a stellar role by coming out with guidance notes on reporting frameworks, standards and taxonomies in the ESG and Sustainability domain, with the object of promoting a structured approach to Sustainability accounting, disclosures, reporting and assurance functions which aligns with the regulatory framework evolved and being evolved from time to time by IFSCA.

What IFSCA can look forward from Cost and Management Accountants (CMAs)

The IFSCA having initiated a robust framework to facilitate the growth of ESG labelled securities has embarked on the various steps for building a propitious regulatory environment. It has also taken steps for boosting involvement of fintech in the domain of sustainable finance as also working on making available various incentives for the flow of green finance for sustainable development. CMA professionals are best equipped to check and interpret the disclosures of the Issuer and enable the reliable reporting of ESG KPIs, which are the corner stones based on which progress of Sustainable development initiatives can be monitored. The authors are of the strong view that there is ample scope for IFSCA to utilise the expertise of professionals having CMA background in their endeavour to have in place a world class regulatory framework which apart from promoting Ease of doing Business also promotes sustainability initiatives not only in India, but also in the global south.

After all as is always said *"Behind Every Successful Business Decision, there is always a CMA"*, which will be proved true in the coming times. MA

NOTES FOR AUTHORS

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