

WHITE PAPER

TRANSITION FRAMEWORK FOR FINANCIAL INSTITUTIONS

What Really Matters to Drive Real-Economy Outcomes

OCTOBER 2026

FOREWORD

This white paper presents the key findings of research led by the PARC (Paris Agreement Research Commons) Foundation to assess the transition and mitigation performance of financial institutions.

The work builds on a broader research effort carried out with contributions from the Columbia Center on Sustainable Investment (CCSI) and support from Arc.

About the PARC Foundation

The PARC Foundation, hosted by the Institut Louis Bachelier, supports interdisciplinary academic research on the key challenges of the Paris Agreement, bringing together researchers, regulators, institutions and economic actors. Focusing on sustainable finance, it develops independent research, methodologies and data tools to support the alignment of financial systems with climate and sustainability objectives, and to help all economic actors achieve the goals of the Paris Agreement.

About Arc

Arc is a global non-profit organisation that builds the shared pathways needed to turn climate and resilience ambitions into tangible investment flows. It works with local partners and global institutions to build the information infrastructure that connects fragmented transition efforts. Arc funds and develops missing transition pathways, integrates data and frameworks, and surfaces the evidence needed to unlock business action and policy across the world.

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EXECUTIVE SUMMARY

In recent years, the financial ecosystem has seen a proliferation of data, tools, frameworks, and third-party initiatives aimed at assessing financial institutions' (FIs) climate transition performance. Our two successive reports, Alignment Cookbooks 1 and 2¹, have examined these challenges and their evolution in depth, contributing to methodological improvements and a more nuanced understanding of the issues at stake. The latest Alignment Cookbook highlighted the growing confusion within the practitioner ecosystem, which has often overshadowed the ultimate objective: financing² the decarbonisation of the real economy.

In this context, the PARC Foundation, with contributions from CCSI, developed a suite of transition frameworks for FIs (i.e. banks, asset managers, asset owners and insurers), that aim to be both methodologically robust and practically useful in steering real-world decarbonisation. Building on existing methodologies and open-source third-party data, these frameworks are designed to assess institutions' transition maturity through an impact-driven lens, prioritising real-economy outcomes over process-based metrics.

This paper distils the findings into five key messages.

1. Emissions targets have been misleading. It is time to refocus attention. While financed emissions data remain a critical input to transition analysis, emissions metrics are distorted by attribution factors and may fluctuate independently of actual changes in real-world emissions. Emissions are best treated as lagging indicators and reference objectives to be complemented by financing, and engagement targets whose coherence should be explicitly assessed.

2. Financing must become the backbone of climate strategy. Capital allocation is the primary lever through which FIs shape the transition. Assessment should shift from portfolio alignment to portfolio contribution across three interconnected levers: strategic asset allocation, financial products and instruments, and asset-level classification and maturity.

3. Channels of influence must be assessed by FI type. Generic, largely quantitative engagement metrics overlook how banks, asset managers, asset owners, and insurers actually influence the real-economy. Frameworks should reflect institution-specific channels, prioritise outcomes over processes, and capture FIs' role in building the conditions to scale investable markets.

4. External factors must be integrated. Transition feasibility depends on enablers and barriers beyond FIs' control. Frameworks should map these dependencies, use scenario analysis, account for their interactions, and encourage transparency on implementation barriers.

5. Ex-post monitoring must be developed. After the talk comes the walk. Current practice remains largely focused on commitments made before capital is deployed (ex-ante). But robust monitoring of how it flows (ex-post), grounded in attribution analysis that separates genuine decarbonisation from methodological effects, is essential to verify that commitments translate into measurable real-economy outcomes.

¹ Institut Louis Bachelier (ILB) et al. (2020). The Alignment Cookbook: A Technical Review of Methodologies Assessing a Portfolio's Alignment with Low-Carbon Trajectories or Temperature Goal. Available at: [link](#)

Institut Louis Bachelier (ILB). (2024). The Alignment Cookbook 2. Available at: [link](#)

² For the purposes of this paper, "financing" refers broadly to lending, investment, infrastructure financing, public markets activities, capital markets facilitation, and underwriting activities undertaken by financial institutions, depending on their business model.

CONTEXT

In recent years, the financial ecosystem has seen a multiplication of data, tools, frameworks, and third-party initiatives aimed at assessing financial institutions' (FIs) climate transition performance. While these developments have contributed to greater improvement in methodologies and insights, they have also led to increasing confusion and have often overshadowed the ultimate objective of financing³ the decarbonisation of the real-economy.

The clearest expression of this situation relates to mainstream approaches in current data frameworks focused on targets, notably financed emissions⁴ targets: while financed emissions data remain a critical input to transition analysis, they fall short of capturing the true impact of FIs on the real-economy and in guiding the actions they can undertake to support the transition. What is more, they can be misleading. *"When a measure becomes a target, it ceases to be a good measure"* (Charles Goodhart, UK monetary policy discussions, 1975). This well-known Goodhart's Law highlights how any indicator, however relevant, can be manipulated or optimised once it becomes a political or strategic target, thereby losing its ability to reflect reality. A further section in the paper explains how it unfolds in the financing sector.

Beyond this question, a more fundamental challenge lies in how impact itself is understood and measured. In ecological and low-carbon transitions, the true impact of actions often spans multiple scales, across sectors, geographies, and value chains, and involves interactions that are not readily captured by conventional quantitative indicators. As a result, discussions around real-world impact are gaining increasing prominence across the financial ecosystem, yet methodological approaches remain underdeveloped and fragmented. This limits the ability of FIs to consistently assess and compare their contribution to real-world decarbonisation.

Many climate alignment methodologies continue to operate primarily at the level of disclosure, turning reporting into a compliance or box-ticking exercise rather than a genuine driver of strategic and operational transformation. The evidence is admittedly contrasted. Reviewing the UK experience, Witney (2025) concludes that mandatory disclosure led to *"significant, one-off but persistent reductions in corporate GHG emissions"*. A substantial body of academic literature has nonetheless highlighted the limitations of disclosure, particularly in its voluntary and narrative forms. As Delmas, Etzion and Nairn-Birch (2013) note, *"environmental disclosure does not necessarily reflect actual environmental performance"*. Similarly, Christensen, Hail and Leuz (2021) observe that *"ESG disclosure primarily improves transparency but does not automatically*

³ For the purposes of this paper, "financing" refers broadly to lending, investment, infrastructure financing, public markets activities, capital markets facilitation, and underwriting activities undertaken by financial institutions, depending on their business model.

⁴ Unless otherwise specified, "financed emissions" is used throughout this paper as a broad term encompassing all attributed emission methodologies, including for instance facilitated emissions and insurance-associated emissions as defined by PCAF (Partnership for Carbon Accounting Financials).

translate into better environmental outcomes". Lyon and Maxwell (2011) further argue that *"voluntary environmental disclosure may be used strategically to divert attention from poor environmental performance"*. The point is therefore not whether disclosure matters, but under what conditions it does.

In this increasingly challenging environment, the multiplication of data, indicators, and methodologies may direct attention toward comparing frameworks rather than driving tangible outcomes. The current geopolitical context, characterised by elements of climate-related deregulation in disclosure requirements and shifting policy signals, further compounds these challenges by affecting both the quality and the quantity of data available on transition dynamics and related issues.

These dynamics have come at a real cost. The recent period has seen previously announced targets withdrawn, sustainability teams reduced or dismantled, and climate displaced from the strategic agenda of a number of institutions. Taken together, these shifts have driven a systemic step back from environmental considerations across the real economy. Within the financial sector, they have not only slowed progress across the sector but also challenged the initial expectation of converging transition practices across financial institutions.

Against this backdrop, the current slowdown highlights the need for the financial ecosystem to reassess existing approaches and refocus the debate on what truly matters, namely which actions, levers, and metrics most effectively contribute to real-economy decarbonisation.

This leads to a key realisation: frameworks must be designed to be not only methodologically robust but also genuinely useful to financial institutions in guiding how they support real-world decarbonisation, ensuring that they are perceived as both relevant and legitimate by practitioners and effectively adopted.

OUR APPROACH: WHAT & HOW

It is with this context and realisation in mind that the PARC Foundation led the development of transition assessment frameworks for financial institutions (FIs), with contributions from CCSI.

Given the key role that FIs could play to deliver real-world outcomes, and the fact that their contributions and available levers differ depending on their type, four dedicated frameworks have been developed, each tailored to a specific category of FI: banks, asset managers (AMs), asset owners (AOs), and insurers.

Such frameworks are designed to serve both external and internal stakeholders, enabling external assessment while providing FIs with actionable indicators to guide their own transition strategies.

In this context, the developed frameworks place a primary focus on the contribution of FIs to the financing of the transition of the real-economy. This encompasses both impact alignment and impact generation, as defined by the Finance Sector Expert Group for Race to Zero and Race to Resilience (FSEG)⁵, referring respectively to increasing exposure to climate-aligned or credibly transitioning assets and to actively supporting real-economy decarbonisation by expanding investable opportunities linked to the transition.

This approach is not risk-based. Although climate risk and impact are often linked, they operate through distinct logics and should not be treated as substitutes⁶. Incorporating climate risk scenarios into financial decision-making does not automatically translate into transition-aligned capital reallocation. The interaction between long-horizon modelled risks and short-term investment horizons can produce weak transmission into allocation decisions, or, when short-term effects are perceived, trigger defensive withdrawal from exposed assets rather than targeted investment in transition opportunities.

This work builds on the extensive body of existing methodologies, guidance, voluntary and regulatory frameworks, data providers' frameworks, and assessment tools, while critically assessing their strengths and limitations and identifying key blind spots that require further methodological development. The approach prioritises existing public data sources which evaluate the transition performance of financial institutions⁷. Particular attention was also paid to operational implementation constraints, including the coverage of financial institutions and geographies, as well as the regular updating of datasets.

⁵ Finance Sector Expert Group for Race to Zero and Race to Resilience (FSEG) / Theia Finance. (2022). *How Can Net Zero Finance Best Drive Positive Impact in the Real Economy? Discussion Paper*. Available at: [link](#)

⁶ Indeed, progress in managing transition risk does not necessarily translate into a positive real economy climate contribution, just as impactful transition strategies might not immediately reduce financial risk-related exposure.

⁷ This approach is in line with that followed by Arc in the *TransitionArc* platform – which evaluates the transition performance of corporates using similar open-source indicators.



Figure 1: Non-exhaustive overview of data and framework providers used to build the framework.

To this end, the development of the framework followed a structured and iterative approach, balancing methodological ambition with practical feasibility.

It is grounded in a comprehensive review of indicators developed by market data providers, with a focus on those that are both theoretically relevant for assessing transition performance and operationally implementable. This process was complemented by ongoing exchanges with financial institutions and data providers to refine the approach, ensuring that it builds on existing practices and needs while addressing identified gaps through the introduction of additional indicators where needed.

The identification of relevant data sources and associated indicators was then guided by the level of methodological transparency provided by data sources, notably regarding how raw data are processed and translated into indicators, as well as by the capacity of these indicators to meaningfully differentiate institutions' transition performance.

At a high level, each framework is structured around a set of core themes, largely inspired by the Transition Plan Taskforce (TPT), ACT Finance, SBTi, and net-zero initiatives. These themes follow a progressive logic, moving from governance and strategic intent through implementation to, ultimately, outcomes (*see Figure 2*).

FIs' contribution is assessed primarily, where possible, through outcome-oriented metrics, focusing on outputs and impacts rather than predominantly on process-based indicators. While process-based metrics capture how an institution organises and structures its transition strategy (e.g. existence of a deforestation exclusion policy), output-based metrics assess the direct actions undertaken to implement this strategy (e.g. the volume of financing allocated to climate solutions or credibly transitioning assets) and impact metrics⁸ aim to capture changes in the real-economy that can be fully or partly attributed to financial institutions.

⁸ Impact Frontiers. (2018). *Impact Management Norms*. Available at: [link](#)



Figure 2: A Progressive Framework for Financial Institutions' Transition: From Strategy to Real-World Outcomes
Core themes

Building on this work, this paper highlights the key findings and the areas that matter most for assessing FIs' contribution to real-economy decarbonisation. It identifies a limited set of priority dimensions and indicators that, in our view, can help financial institutions and the broader ecosystem move forward, by informing more robust methodologies, strengthening disclosure expectations, and supporting more meaningful assessment practices focused on real-world outcomes.

The subsequent sections focus on specific areas of the framework (non-exhaustive).

1 EMISSIONS TARGETS HAVE BEEN MISLEADING. IT IS TIME TO REFOCUS THE ATTENTION

Current portfolio-level target-setting methodologies adopted by FIs have historically focused primarily on tracking portfolio emissions. While these metrics provide a reference for measuring portfolio decarbonisation, emissions targets have sometimes taken on a predominant role in strategic steering, which can come at the expense of other levers.

Research suggests that, when relied upon in isolation, FIs' emissions targets may have limited impact on the real-economy and, in certain cases, can even generate counterproductive effects⁹¹⁰. Financed emissions data remain a critical input to transition analysis. These limitations do not undermine their value but rather highlight the need to consider how they are used and which other indicators should complement them. This dynamic is partly rooted in the construction of financed emissions metrics themselves, which rely on monetary attribution factors initially designed to provide an “accounting” representation of emissions associated with financial activities, and which can introduce significant volatility into reported emissions trajectories, reflecting changes in holdings and/or market values¹¹¹²¹³.

Attribution factors are often linked to metrics such as Enterprise Value Including Cash (EVIC), meaning that reported financed emissions can fluctuate significantly due to changes in holdings, market valuations, or interest rates rather than underlying emissions performance. As a result, **reported emissions may fluctuate independently of any actual change in real-economy emissions**. This decoupling can make it difficult for institutions to track underlying climate performance, as favourable market rallies can artificially “deflate” a portfolio’s carbon intensity, while a market downturn can trigger a breach of climate targets despite no change in real-world emissions¹⁴. Where such

⁹ Columbia Center on Sustainable Investment (CCSI). (2023). *Finance for Net Zero: Redefining Financial-Sector Action to Achieve Global Climate Goals*. Available at: [link](#)

Institut Louis Bachelier (ILB). (2025). *Financial Sector’s Path to Global Climate Goals: A Comprehensive Framework to Assess the Consolidated Alignment of Financial Institutions*. Available at: [link](#)

Schairer, S. et al. (2025). *Out of the Light, into the Dark: How Shadow Carbon Financing Hampers the Green Transition and Increases Climate-Related Systemic Risk*. Available at: [link](#)

¹⁰ Energy Economics. (2023). *Net-zero targets for investment portfolios: An analysis of financed emissions metrics*. Available at: [link](#)

¹¹ Sabin Center for Climate Change Law (Columbia Law School). (2024). *Shocking Financed Emissions: The Effect of Economic Volatility on the Portfolio Footprinting of Financial Institutions*. Available at: [link](#)

¹² CFA Institute. (2024). *What Is Non-Real Impact in Carbon Metrics?* Available at: [link](#)

¹³ Reclaim Finance. (2024). *Targeting Net Zero: The need to redesign bank decarbonisation targets*. Available at: [link](#)

¹⁴ This challenge may be particularly pronounced for AM and AO exposed to listed markets, where financed emissions metrics are more sensitive to market valuation and portfolio composition effects. By contrast, banks and insurers are generally more directly connected to underlying economic activities through their lending and underwriting activities, making them comparatively less exposed to such distortions.

metrics remain in use, these effects can be mitigated by relying on unattributed emissions metrics or, where these cannot be applied, on debiasing approaches that correct for attribution effects (see *Part 5*).

Beyond measurement challenges, a growing body of research highlights an “impact gap” between portfolio alignment and real-economy outcomes. As emphasised by Kölbel & Al.¹⁵, a distinction should be made between alignment, which measures the consistency of a portfolio with a given decarbonisation pathway, and “impact”, which refers to actual reductions in real-world emissions. By focusing on aligning portfolio emissions with emissions reduction pathways, such targets can, in some cases, incentivise divestment from carbon-intensive assets as a means of improving reported performance. While this strategy can support the achievement of internal net zero portfolio targets, it may not necessarily generate investor impact in the sense described by Kölbel & Al.¹⁵, as portfolio reallocation alone does not guarantee any change in the behaviour of the underlying companies or a corresponding reduction in real-world emissions. It may lead to unintended consequences where high-emitting assets are offloaded to actors less likely to support their transition, thereby prolonging their operation without meaningful decarbonisation¹⁶. This tension calls for greater emphasis, alongside emissions metrics, on the mechanisms through which FIs can contribute to real-economy decarbonisation.

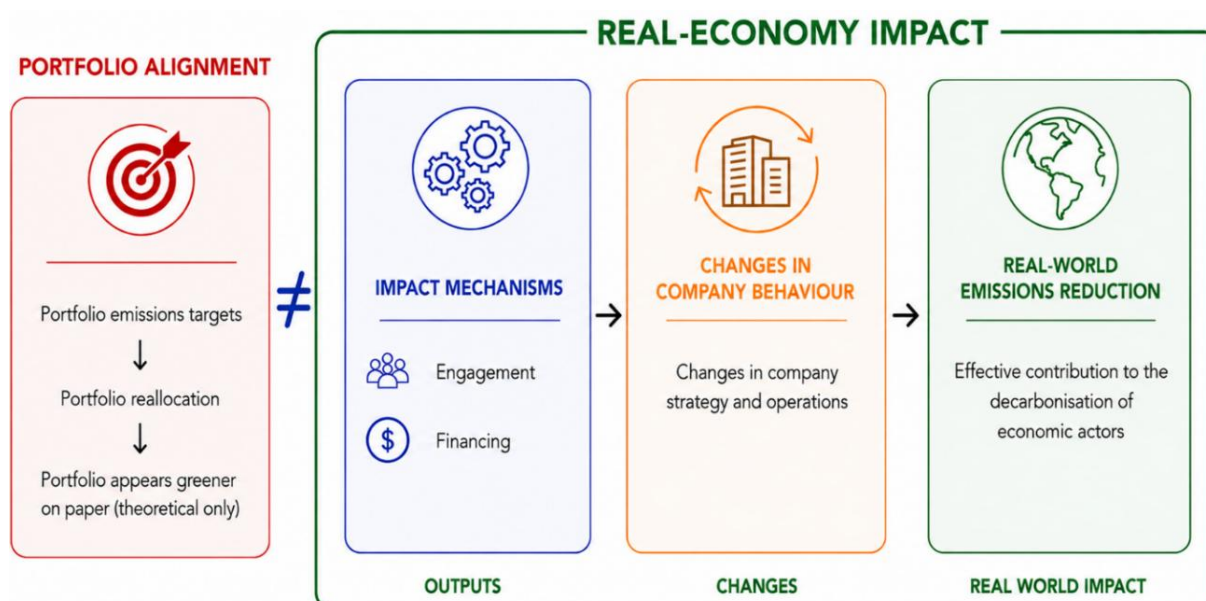


Figure 3: Moving beyond portfolio alignment towards real-economy impact
Adapted from *Can Sustainable Investing Save the World?* (Kölbel, J. F., Heeb, F., Paetzold, F., & Busch, T.)

¹⁵ Kölbel, J. F., Heeb, F., Paetzold, F., & Busch, T. (2020). *Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact*. Available at: [link](#)

¹⁶ Columbia Center on Sustainable Investment (CCSI). (2023). *Finance for Net Zero: Redefining Financial-Sector Action to Achieve Global Climate Goals*. Available at: [link](#)

Institut Louis Bachelier (ILB). (2025). *Financial Sector's Path to Global Climate Goals: A Comprehensive Framework to Assess the Consolidated Alignment of Financial Institutions*. Available at: [link](#)

Schairer, S. et al. (2025). *Out of the Light, into the Dark: How Shadow Carbon Financing Hampers the Green Transition and Increases Climate-Related Systemic Risk*. Available at: [link](#)

Consequently, while financed emissions data continue to play an important role in transition analysis, **emissions metrics can serve as a reference objective** that sets the overarching direction of a decarbonisation strategy, **which must then be supported and operationalised through a concrete and actionable set of targets**¹⁷. In this perspective, **emissions should primarily function as lagging (or trailing) indicators**¹⁸ used to assess ex-post whether the institution has effectively achieved its decarbonisation objective and, grounded in attribution analysis, whether this has translated into genuine real-economy emissions reductions (see *Part 5*).

Recentring the discussion on what truly matters requires shifting attention away from headline declarations toward the concrete construction of business plans capable of delivering the structural transformation needed to address a challenge as complex as the climate transition. **No single standalone metric or target can, in isolation, effectively drive GHG emissions reductions in the real-economy over the long term**¹⁹, which calls for a more holistic approach to target-setting and assessment.

This implies considering not only emissions-related targets, but also a broader range of targets, with a greater emphasis on financing targets (see *Part 2*) - beyond commonly used exclusion policies related to fossil fuels - as well as engagement targets focused on how financial institutions can influence their counterparts, stakeholders and markets (see *Part 3*) to enable tangible real-economy change. This evolution is already reflected in practice: most major net zero target-setting frameworks, including Institutional Investors Group on Climate Change Net Zero Investment Framework (IIGCC NZIF), the Science Based Targets initiative Financial Institutions Net-Zero Standard (SBTi FINZ), and the Net-Zero Asset Owner Alliance Target Setting Protocol (NZAOA TSP), have recently moved beyond a narrow focus on emissions metrics toward more integrated approaches that incorporate a wider range of targets to steer and monitor progress, while emissions indicators remain critical to validate outcomes over time.

One important missing piece remains the assessment of the overall coherence between how these different targets are designed and implemented. As highlighted by actors such as ShareAction in the banking industry, current market practices often consist of constructing multiple categories of targets that fail to complement one another²⁰. Treating targets in isolation can therefore create gaps and inconsistencies that weaken the credibility of FIs transition commitments. This calls for the development of indicators that assess the consistency across the different categories of climate targets

¹⁷ Adapted from Institutional Investors Group on Climate Change (IIGCC). (2024). *Implementation Guidance for Objectives and Targets — Net Zero Investment Framework*. Available at: [link](#)

¹⁸ Science Based Targets initiative (SBTi). (2025). *Financial Institutions Net-Zero Standard*. Available at: [link](#)

¹⁹ UNEP FI. (2022). *UN-convened Net-Zero Asset Owner Alliance: Target Setting Protocol — Second Edition*. Available at: [link](#)

²⁰ ShareAction. (2024). *Mind the Strategy Gap: How Disjointed Climate Targets Are Setting Banks Up to Miss Net-Zero*. Available at: [link](#)

set by Fls²¹, combining both qualitative and structural criteria to evaluate whether financing and engagement strategies are effectively aligned with overarching decarbonisation objectives.

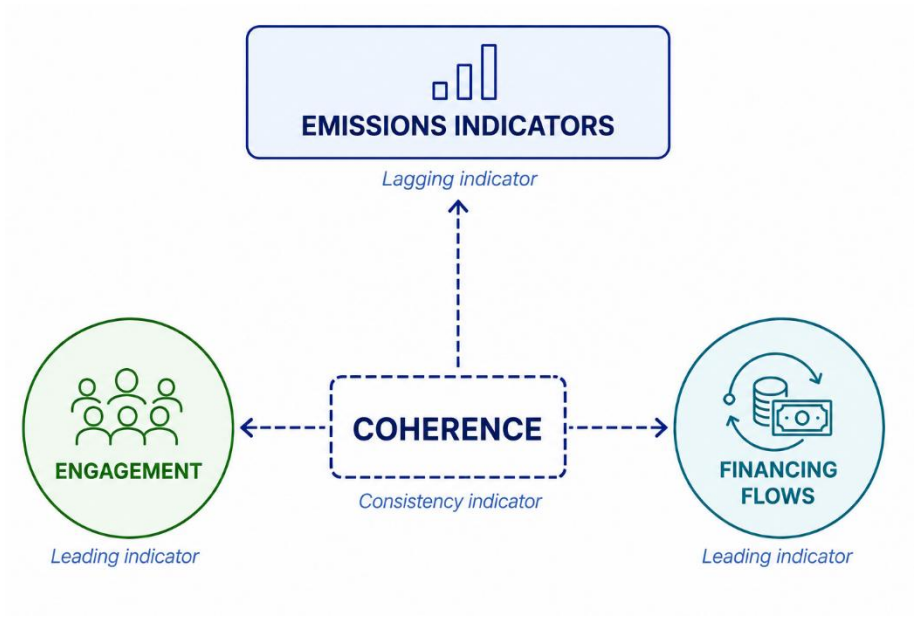


Figure 4: Holistic and complementary indicators to drive consistent real-world decarbonisation

²¹ Recent initiatives call for insurers to ensure target consistency not only across categories but also between underwriting and investment activities, as part of a broader approach to coherence across the two sides of the balance sheet. These two activities are distinct but closely interconnected, as decisions made on one side can materially influence transition outcomes on the other. See for instance the FIT's Total Balance Sheet (TBS) approach (FIT (2025). *A Total Balance Sheet Transition*. Available at: [link](#))

KEY TAKEAWAYS

EMISSIONS TARGETS HAVE BEEN MISLEADING. IT IS TIME TO REFOCUS THE ATTENTION



CURRENT APPROACHES & LIMITS



Current emissions accounting frameworks rely on attribution factors based on valuation metrics (e.g., EVIC, Market Capitalisation). This attribution process introduces market-driven volatility into financed emissions, causing emissions metrics to fluctuate independently of underlying real-economy decarbonisation outcomes.



Current climate assessment frameworks often place emissions reductions and related targets at the centre of transition assessments. As a result, insufficient attention is paid to how financial institutions contribute to real-economy decarbonisation.



WHAT IS NEEDED?



Assessment frameworks should **move beyond an exclusive focus on emissions metrics and targets and adopt a broader set of complementary indicators, including financing and engagement metrics**, to assess transition performance. In this perspective, what matters is not only how much a portfolio emits today, but also how a financial institution contributes to the transformation of the real-economy.



Assessment frameworks should furthermore **evaluate the coherence between emissions, financing, and engagement objectives and outcomes**, ensuring that these dimensions collectively support a credible transition strategy (cf. target architecture consistency indicator).



Emissions indicators should primarily serve as lagging indicators, assessing ex-post whether transition measures have effectively delivered real-economy decarbonisation.



Where emissions metrics are used, preference should be given to unattributed emissions metrics. Where this is not feasible, debiasing approaches (e.g. IPEPS, WACI-type methodologies) provide a minimum safeguard against attribution-related distortions. Ex-post attribution analysis can complement these approaches by identifying the contribution of different drivers overtime.

2

FINANCING HAS BEEN UNDEREMPHASISED, IT MUST BECOME THE BACKBONE OF CLIMATE STRATEGY

Capital allocation²² constitutes one of the key levers through which FIs influence the transition of the real-economy. If emissions changes represent the ultimate objective, financing decisions determine FIs' role in supporting the transition. FIs must therefore recentre their transition strategy on financial flows, their core business.

Historically, the financial sector's climate narrative has been largely shaped by “de-risking” and “footprinting”, approaches that have often emphasised the measurement of emission stocks while the mobilisation of capital flows to support the transition has received comparatively less attention. Current frameworks have often focused on the decarbonisation of balance sheets, in some cases driving institutions to divest from carbon-intensive sectors in order to meet short-term targets. Yet a focus on emissions accounting alone rather than on capital allocation overlooks the fundamental role of financial flows in driving transition outcomes.

Placing greater emphasis on financing strategies, alongside portfolio decarbonisation, may have a more direct impact on real-world decarbonisation²³. To bridge the multi-trillion-dollar investment gap required to achieve global climate goals, financing must become a central pillar of FIs' climate strategies.

At the core of the transition, **FIs are ultimately expected to deliver on what matters most: directing capital flows toward real-economy decarbonisation**. Financing metrics offer a key advantage in this respect. Unlike emissions trajectories, they can be aggregated, enabling financial flows to be summed and consolidated from the portfolio level to the sectoral and macroeconomic levels²⁴. As a result, they provide a tangible means of tracking and steering the collective effort required to support the transition.

Operationalising this ambition requires moving away from fragmented initiatives and adopting a credible framework for assessing FIs' climate performance that shifts the diagnostic lens from portfolio alignment to portfolio impact.

To evaluate whether an FI is genuinely contributing to real-economy decarbonisation, **assessment frameworks must move beyond static carbon accounting and link macroeconomic intent with asset-level reality** by evaluating how climate

²² Capital allocation is used broadly to cover the full range of FIs' core financial activities, including direct financing, capital market facilitation, and related engagement activities, through which FIs direct capital flows across the economy.

²³ Columbia Center on Sustainable Investment (CCSI) and Man Group. (2024). *Climate Allocation Compass: A Framework for Real-World Decarbonisation (Compass-FRWD)*. Available at: [link](#)

²⁴ Institut Louis Bachelier (ILB). (2025). *Financial Sector's Path to Global Climate Goals: A Comprehensive Framework to Assess the Consolidated Alignment of Financial Institutions*. Available at: [link](#)

considerations are integrated **across three complementary and interconnected levels: i) Strategic Asset Allocation; ii) Capital transmission through financial products and instruments; and iii) Asset-level classification and maturity.** Together, these levels capture institutions' capacity to direct, manage and verify capital deployment and translate climate ambitions into measurable real-economy outcomes.

As financial flow metrics remain at an early stage, such an approach would play a catalytic role in consolidating them, strengthening both their methodological robustness and their usefulness for the decisions that steer capital towards the transition.

2.1 Strategic Asset Allocation: the steering wheel

Strategic Asset Allocation (SAA) represents the highest level of fiduciary leverage and constitutes the macro level through which FIs can influence the transition of the real-economy. By determining long-term capital allocation across asset classes, sectors, geographies and investment themes, SAA shapes the overall direction of financial flows.

Mainstreaming financing within climate strategy requires a fundamental rewiring of SAA. Rather than remaining a secondary ESG overlay, climate risks and transition opportunities must be integrated into long-term Capital Market Assumptions (CMA), as these ultimately drive strategic asset allocation decisions that subsequently influence portfolio construction and capital deployment²⁵.

A credible approach should place greater emphasis on forward-looking indicators (such as CapEx), alongside backward-looking reported emissions. Climate scenarios and sector- and geography-specific transition pathway analyses must therefore be embedded into the strategic asset allocation process to identify decarbonisation levers, investment opportunities and financing gaps across the economy²⁶. Indicators and targets derived from these pathways and scenario-based benchmarks can then be used by FIs to assess whether capital is being allocated at the scale and pace required to support the transition, while serving as a reference point for capital allocation across asset classes, sectors and geographies.

The contribution of SAA to transition outcomes requires indicators capable of assessing whether the global investment strategy is aligned with macro-level decarbonisation pathways and the financing needs implied by them. This may include evaluating whether FIs have adjusted internal capital allocation mechanisms²⁷ to support

²⁵ A broader challenge relates to the mismatch between the 3–5 year horizons typically embedded in strategic asset allocation processes and the 10–30 year horizons associated with climate transition pathways.

²⁶ Columbia Center on Sustainable Investment (CCSI) and Man Group. (2024). *Climate Allocation Compass: A Framework for Real-World Decarbonisation (Compass-FRWD)*. Available at: [link](#)

²⁷ E.g. hurdle rates, cost of capital assumptions

climate solutions and credibly transitioning activities, and how trade-offs between risk-return considerations and climate objectives are managed. Ultimately, this alignment should be reflected in strategic allocation decisions that actively direct capital toward areas where financing gaps are greatest and where additional financing is most needed to support the transition, rather than merely optimising portfolio characteristics.

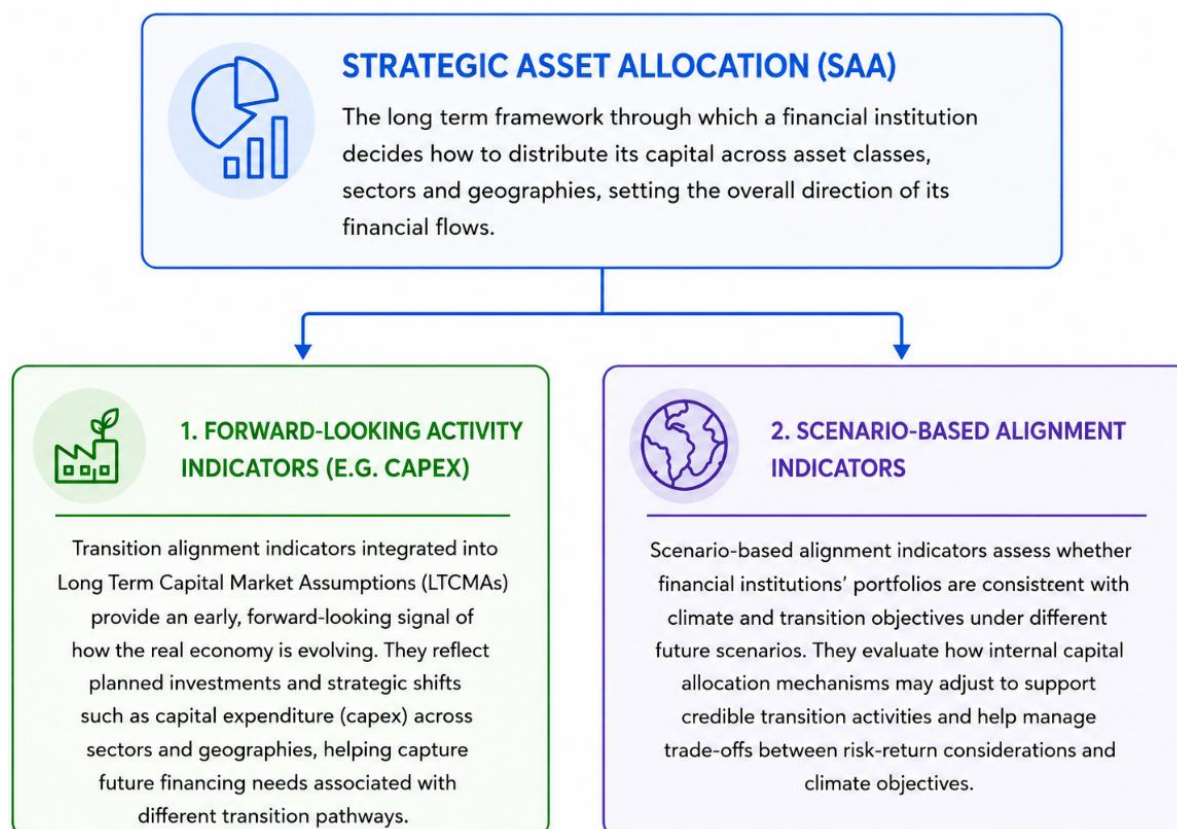


Figure 5: How to construct and assess a Strategic Asset Allocation consistent with climate considerations?

2.2 Financial products and instruments : the transmission mechanisms

Financial products and vehicles constitute the intermediate level through which strategic asset allocation decisions are translated into real-economy investment outcomes, determining how capital is ultimately deployed across sectors, geographies and activities.

This intermediate level leverages existing and evolving regulatory frameworks, such as the EU Paris-Aligned Benchmarks (PAB), Climate Transition Benchmarks (CTB), or SFDR (Article 8 and 9), to institutionalise climate mandates. However, to move beyond simple benchmark tracking, this layer must increasingly rely on targeted instruments such as Green Bonds, Sustainability-Linked Bonds (SLBs), blended finance structures, and dedicated Transition Funds. These products respond to two structural requirements: providing issuers with the cost-of-capital signals necessary to finance their transition, and offering institutional investors the standardised, transparent frameworks required to deploy capital at scale.

The growing importance of these instruments raises the question of how their effectiveness in supporting climate objectives should be assessed.

Current market practices often place significant emphasis on indicators such as the share of assets under management classified as Article 8 and Article 9 under SFDR, investment in labelled products, or exclusion-based approaches. While these metrics provide useful information regarding portfolio characteristics, they offer limited insight into the directionality of financial flows and their contribution to real-economy decarbonisation.

The focus should instead be placed on whether financial products effectively channel capital toward climate solutions and credible transition activities, taking into account the specific transmission channels through which different FI typologies and financial instruments reach the real-economy²⁸²⁹. Indicators such as financing targets for climate solutions and transition counterparties, as well as the green-to-brown ratio, can help assess whether capital is being redirected at the scale and pace required to support the transition³⁰.

Beyond the directionality of financial flows, **assessing the contribution of financial products also requires considering their additionality**. The contribution of financing to the transition varies significantly depending on the financial instrument used, the sector targeted and the geographic context. As a result, one unit of capital deployed does not generate the same transition impact everywhere.

In this respect, financing directed toward emerging markets and developing economies (EMDEs) deserves particular attention. These economies face substantial financing gaps while being central to achieving global decarbonisation objectives³¹. Mobilising capital at scale requires dedicated transmission mechanisms to de-risk investment in emerging markets where the climate impact per dollar is highest.

Tracking the deployment of such mechanisms constitutes an important dimension³². Assessment approaches should therefore consider financing flows directed toward EMDEs across different asset classes and financing channels, including blended finance

²⁸ Institut Louis Bachelier (ILB). *Green/Brown Ratio: Focus on the Energy Supply Ratio (ESR)* (2025). Available at: [link](#)

²⁹ For insurers, transmission channels occur through both investment and insurance activities.

³⁰ Support for climate solutions and credible transition activities should be assessed not only through financing flows, but also through underwriting activities, considering both existing underwriting portfolios (stock) and newly deployed underwriting capacity (flows).

³¹ Supporting sustainable economic development in these economies is essential to enable green growth pathways and achieve global decarbonisation objectives since a disproportionate share of future emissions will come from EMDEs.

³² Greater transparency and availability of data regarding EMDE investments may further contribute to reducing perceived risks, improving market understanding and supporting the mobilisation of private capital. (see CCSI. *From Promise to Performance: Reforming Blended Finance for Scale* (2025). Available at: [link](#))

structures, co-financing arrangements with Development Finance Institutions (DFIs), and Public-Private Partnerships (PPPs).

Directionality and additionality provide important insights into how financial products support the transition. However, **a comprehensive assessment also requires considering financing activities that may undermine climate objectives.**

Current market practices primarily assess harmful financing flows through indicators related to fossil fuel financing, often complemented by exclusion policies and divestment commitments. While these approaches provide important information, they capture only part of the broader range of financing activities that may adversely affect climate outcomes.

In this respect, financing linked to deforestation and unsustainable land-use change warrants particular attention. Forests play a critical role in global climate regulation, with primary forests acting as major carbon sinks while supporting biodiversity and ecosystem resilience. Financial flows directed toward activities associated with deforestation can therefore significantly undermine climate mitigation efforts and offset the benefits generated by transition financing elsewhere in the economy.

Financial institutions should consequently assess and monitor financing flows directed toward sectors and activities associated with deforestation through indicators capable of tracking the (mis)alignment of their portfolios with deforestation and broader land-use change objectives. Such indicators can help distinguish between financing contributing to deforestation and financing supporting the preservation and restoration of natural ecosystems.

2.3 Asset classification and maturity: the granular engine

Asset classification and maturity assessment constitute the execution layer through which financing strategies are translated into bottom-up portfolio construction and stock-picking decisions. At this level, asset classification determines what is ultimately being financed and whether it contributes to transition objectives.

At this level, FIs must rely on robust taxonomies and comprehensive assessment frameworks **to classify activities and assets according to their contribution to transition outcomes**³³. Robust asset-level classification provides the foundation upon which strategic allocation and financial products can be effectively designed and assessed. Such classification systems must distinguish between different forms of

³³ Advanced analytical tools, including AI-based approaches, may support FIs in identifying and classifying activities with the greatest transition impact and facilitate more targeted capital allocation. (see CCSTI. *A Metric for Financing Real-World Decarbonisation* (2024). Available at: [link](#))

contribution to the transition. In practice, this requires both the **scaling of climate solutions and the expansion of transition finance**.

Today, multiple approaches coexist, each relying on different nomenclatures, indicators and assessment methodologies to categorise assets based on their transition readiness. **Despite this market heterogeneity, a growing convergence is emerging around the use of maturity scales and “traffic light” systems** to guide and monitor climate related financing³⁴. Maturity stages are defined using a clear set of criteria assessed through a checklist-based approach. This structure increases transparency regarding the underlying indicators and allows for a cumulative evaluation of entities across a range of dimensions³⁵ (e.g. Capex alignment, governance, interim milestones).

Existing frameworks generally converge around two broad categories: financing directed toward climate solutions (e.g. enablers and/or counterparties already aligned with net zero³⁴) and financing supporting credible transition counterparties (high-emitting entities with robust and science-based transition plans).

While taxonomies relating to climate solutions are relatively mature (e.g. the EU taxonomy...), there remains no clear market consensus on what constitutes a “transitioning financial flow”. **The absence of sufficiently clear and consistent taxonomies exposes the industry to a risk of “transition washing”**, whereby capital is allocated to high emitting activities without adequate conditionality, accountability or verifiable transition milestones. This challenge is further reinforced by the lack of standardised corporate transition plans, particularly in hard-to-abate sectors, making it difficult to assess the credibility of transition counterparties and the financing flows directed toward them.

More fundamentally, current assessment practices can create a tension between short-term portfolio decarbonisation objectives and the financing of real-economy transition. Under strict emissions-based approaches, financing the decarbonisation of carbon-intensive counterparties may temporarily increase financed emissions despite contributing to long-term emissions reductions. Assessment frameworks therefore **need to recognise and reward credible transition financing pathways rather than**

³⁴ See for instance: Science Based Targets initiative (SBTi). (2025). *Financial Institutions Net-Zero Standard*. Available at: [link](#) ; GFANZ. (2022). *Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations, and Guidance*. Available at: [link](#) ; Investor Climate Action Plans (ICAPs). (2021). *Expectations Ladder*. Available at: [link](#) ; Sustainable Markets Initiative Asset Manager and Asset Owner Task Force (SMI AMAO). (2023). *Transition Categorisation Framework*. Available at: [link](#) ; Climate Bonds Initiative. (2020). *Financing Credible Transitions: How to Ensure Integrity in Transition Finance*. Available at: [link](#) ; PMDR. (2024). *Private Markets Decarbonisation Roadmap (PMDR) 2.0*. Available at: [link](#) ; Transition Plan Taskforce (TPT). (2023). *Disclosure Framework*. Available at: [link](#) ; Climate Policy Initiative. (2025). *Net Zero Finance Tracker (NZFT) Methodology*. Available at: [link](#) ; Assessing low-Carbon Transition (ACT) Initiative. (2025). *ACT Core Methodology*. Available at: [link](#)

³⁵ Institut Louis Bachelier (ILB). (2025). *Financial Sector’s Path to Global Climate Goals: A Comprehensive Framework to Assess the Consolidated Alignment of Financial Institutions*. Available at: [link](#)

systematically penalising temporary exposure to high-emitting assets. Otherwise, capital allocation may continue to favour portfolio optimisation over real-economy decarbonisation.

KEY TAKEAWAYS

FINANCING HAS BEEN UNDEREMPHASISED, IT MUST BECOME THE BACKBONE OF CLIMATE STRATEGY



CURRENT APPROACHES & LIMITS



Current transition frameworks remain largely emissions-centric, placing insufficient emphasis on capital allocation. As a result, FIs may prioritise portfolio reallocation and divestment strategies that reduce reported portfolio emissions, without necessarily contributing to real-economy decarbonisation.



Financing activities, the main channel through which FIs influence the real-economy, **remain insufficiently captured by existing frameworks, particularly the flows and stocks dedicated to climate solutions, transitioning activities, emerging markets, or nature-related objectives.**



Existing transition finance taxonomies and classification frameworks remain highly fragmented across jurisdictions and market actors, limiting comparability and interoperability. At the same time, **the concepts of "transitioning assets" and "transitioning financial flows" lack sufficiently robust and harmonised definitions**, undermining the effective operationalisation and evaluation of transition finance strategies.



WHAT IS NEEDED?



A progressive shift in assessment frameworks from portfolio alignment toward portfolio contribution, with greater emphasis on how financial institutions mobilise and allocate capital to support real-economy decarbonisation. **Financing strategies should become a core pillar of climate assessment, alongside emissions and engagement indicators.**



Financing strategies can influence real-economy decarbonisation through three interconnected levers that should therefore be incorporated into climate assessment frameworks:

- ◆ **strategic asset allocation**, to evaluate how climate considerations shape long-term capital allocation decisions;
- ◆ **financial products and instruments**, to assess how capital is transmitted through transition-oriented financing mechanisms; and
- ◆ **asset-level taxonomies and maturity scales**, to determine whether financed activities and counterparties credibly contribute to the transition.



Greater convergence is needed around taxonomies and maturity-scale approaches to identify and monitor transition-related financial flows. Clear and credible definitions are essential to improve comparability across institutions, reduce transition-washing risks, and ensure that financing effectively supports real-economy decarbonisation.

3

FIS CHANNELS OF INFLUENCE IN DRIVING THE TRANSITION OF THE REAL-ECONOMY

FIs climate strategies implicitly rely on a **theory of change** linking their strategic objectives to expected impacts in the real-economy through different channels of influence such as capital allocation, risk pricing, and stewardship. However, as highlighted by the UN FSEG, **transition outcomes are co-produced by financial and real-economy actors**, making it difficult to isolate the marginal contribution of financial institutions and posing a core identification challenge for data-related impact³⁶.

While this attribution challenge remains significant, current assessments of engagement and stewardship are often conducted through a generic lens, relying on a common set of largely quantitative metrics. This reflects a legitimate objective of promoting standardisation and comparability across FI types. However, these approaches tend to overlook the fact that the mechanisms through which FIs influence real-economy changes differ across banks, asset managers, asset owners, and (re)insurers. These differences reflect the nature of their core activities, the relationships they maintain with corporates (i.e. financing, investment, insurance), as well as the balance-sheet structures and financial instruments through which these activities are conducted. **Such differences across FI types call for a differentiated assessment of influence** that reflects both the specific channels and the distinct ways in which different types of institutions contribute to real-economy outcomes.

Existing methodologies tailored to specific categories of FIs tend to focus primarily on relationships with traditional counterparts, namely clients, investees, savers and investors. **While these channels remain central, they do not fully capture the broader set of relationships** through which FIs may influence key actors and processes contributing, directly or indirectly, to transition outcomes.

For insurers, important channels of influence extend beyond direct engagement with policyholders. Distribution channels and claims management processes have increasingly been identified as relevant channels through which insurers can translate transition objectives into underwriting and post-loss practices³⁷. However, their assessment remains challenging due to the multiple layers of actors involved across these channels. A robust assessment approach could consider both upstream and downstream channels. Across distribution channels, it could assess whether climate criteria are embedded in the guidelines passed on to brokers and other intermediaries,

³⁶ FSEG. (2022). *How Can Net Zero Finance Best Drive Positive Impact in the Real Economy?* Available at: [link](#)

³⁷ See for instance Forum for Insurance Transition to Net Zero (FIT). *Underwriting the Transition: A Deep-Dive Transition Plan Guide for Insurance and Reinsurance Underwriting Portfolios* (2025). Available at: [link](#)

and whether these partners are themselves evaluated against such criteria. Further downstream, in claims management, it could assess whether claims management processes incorporate lower-carbon repair and replacement practices. The objective is to assess not only whether engagement practices are structured and consistent across the actor chain, but also whether they translate into the effective integration of climate considerations into operational decisions and outcomes.

Similarly, for asset managers (AM), important channels extend beyond portfolio companies³⁸. Benchmark methodologies and tracking-error constraints often act as de facto allocation rules, shaping portfolio construction across both passive and active strategies. In this context, engagement with index providers, whose methodological choices determine constituent selection, weighting, rebalancing and exclusion rules, becomes a potentially important lever of influence³⁹. Yet, despite the role of benchmarks in shaping investment universes and capital allocation decisions, this channel remains insufficiently captured by current methodologies. Recent work such as the GFANZ Index Investing Guidance⁴⁰ offers an early reference point for what structured engagement with index providers can look like in practice. Building on this, an indicator could capture whether an asset manager actively advocates for methodological changes by index providers, such as climate-tilted weightings or exclusion rules.

Regarding asset owners (AO), the relationship with AM is already a central component of existing approaches. Key mechanisms such as escalation policies and voting control are widely covered, but are often assessed through predominantly quantitative indicators, sometimes at the expense of evaluating the quality, effectiveness and outcomes of engagement activities. In the case of escalation policies, a more robust assessment would require examining the clarity of escalation triggers, the robustness of escalation pathways and the effectiveness of corrective actions when climate-related expectations are not met. Alongside these established mechanisms, investment mandates are gaining momentum as a key channel through which AO can influence the implementation of climate objectives by AM. Despite their central role in translating strategic objectives into day-to-day investment and stewardship practices, approaches

³⁸ Recent methodological developments have started to provide more structured approaches to assessing investor influence with portfolio companies. For example, the FIR's VOICE methodology seeks to provide investors with a common framework for measuring and accounting engagement activities and their influence. This approach differentiates between the observable effects of engagement interactions (outputs) and the broader corporate changes to which these interactions may have contributed (outcomes), while recognising the iterative nature of influence. (see FIR (2026). *VOICE Methodology*. Available at: [link](#))

³⁹ Engaging with index providers to impact benchmark structuration is particularly important for geography and industry representation to avoid skewed capital allocation. (see Raddatz, C., Schmukler, S. L., and Williams, T. (2017). *International Asset Allocations and Capital Flows: The Benchmark Effect*. Available at: [link](#))

⁴⁰ GFANZ. (2024). *Index Investing Report: Guidance to Support Real Economy Decarbonization*. Available at: [link](#)

to their assessment remain relatively nascent. A more robust assessment would examine whether mandates set explicit climate expectations and associated KPIs, whether these are actively monitored over the life of the mandate, and whether clear escalation procedures are triggered when they are not met.

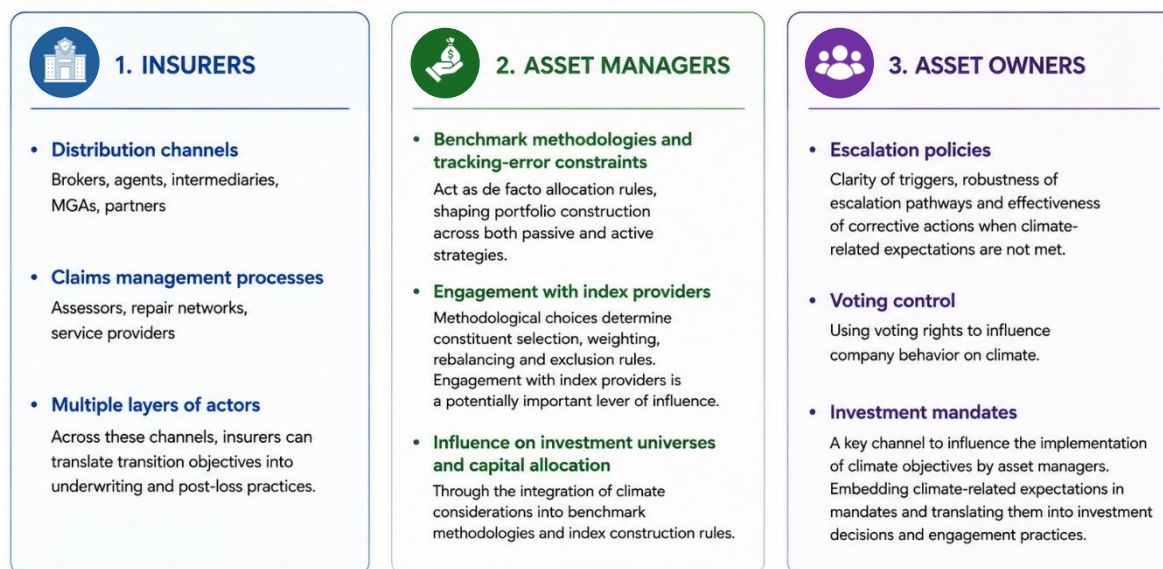


Figure 6: Key channels of influence for insurers, AMs and AOs

Beyond identifying institution-specific channels of influence, assessment frameworks should also **recognise that FIs occupy different positions within the broader financial value chain**. These positions shape the relationships they maintain, the tools and levers available to them, and ultimately the nature and scope of their contribution to transition outcomes. Consequently, even when FIs share similar channels of influence, they may contribute differently to real-world outcomes.

One important missing piece remains the assessment of how FIs contribute to expanding investable markets for climate solutions and credible transitioning assets. Current assessment frameworks largely overlook ecosystem-level coordination, despite the fact that scaling such markets often requires coordinated action among financiers, policymakers, infrastructure providers, insurers, development finance institutions and other economic actors. A climate solution, for instance, may fail to attract investment not due to its intrinsic viability, but rather to the absence of key enabling conditions, including adequate insurance coverage, sufficient supporting infrastructure (e.g. grid capacity), and appropriate de-risking mechanisms (in the case of EMDEs).

Addressing this gap calls for the development of indicators capable of capturing credible, measurable and long-term efforts led by FIs to mobilise and coordinate these actors around the creation of enabling market conditions. The relevance and potential effectiveness of such efforts depend on the position occupied by each FI within the

broader economic value chain, which determines both the actors they can influence and their ability to address specific barriers to the scaling of investable markets.

KEY TAKEAWAYS

FIS CHANNELS OF INFLUENCE IN DRIVING THE TRANSITION OF THE REAL-ECONOMY



CURRENT APPROACHES & LIMITS



Current assessment frameworks generally evaluate engagement and stewardship through a common set of standardised quantitative indicators, failing to adequately reflect the diversity of influence channels available to different FI types.



As a result, assessments tend to focus on traditional counterparties (e.g. clients, investees, policyholders) while overlooking broader channels of influence.



Assessment approaches often focus on engagement activities and processes, providing limited insight into the outcomes achieved through engagement practices.



WHAT IS NEEDED?



Assessment frameworks should adopt a differentiated approach to influence assessment, reflecting the specific channels of influence available to different FI types, including indirect mechanisms that shape investment, underwriting, or engagement decisions.



Frameworks should place greater emphasis on assessing whether engagement efforts translate into meaningful real-economy outcomes, rather than focusing predominantly on commitments and processes.



Frameworks should include indicators assessing how FIs contribute to the development of enabling market conditions required to scale climate solutions and credible transition opportunities.

4 EXTERNAL FACTORS: MAPPING ENABLERS AND BARRIERS TO TRANSITION FEASIBILITY

The feasibility of the transition strategies depends not only on the willingness of FIs but also on a range of external factors that lie beyond their direct control and that determine whether transition-related opportunities are investable. These dependencies may evolve overtime and can be either location-specific or location-agnostic^{41,42}. Yet, such external factors remain a critical missing piece in many existing approaches and require a more structured assessment of the enablers and barriers that shape transition outcomes.

Current market practices provide limited visibility on how contextual conditions influence progress and interact with the actions of FIs. One of the more advanced approaches is proposed by Assessing Transition Plan Collective (ATP-Col), which identifies ten categories of external dependencies, including policy strategy, technological development, and resource availability⁴¹. ATP-Col also highlights that geopolitical dynamics can significantly affect these dependencies (e.g. on resource availability), as these dependencies often extend beyond national borders.

CATEGORY	EXTERNAL DEPENDENCY	EXAMPLES
1. NON-PHYSICAL	1.1 Policy strategy	<ul style="list-style-type: none"> National decarbonisation strategy Geopolitical environment (e.g. threats to energy security, trade of critical resources)
	1.2 Regulatory framework	<ul style="list-style-type: none"> Real economy regulation (e.g. permitting process) Carbon pricing mechanisms and subsidies Financial regulation Legal framework (e.g. ESG litigation risks)
	1.3 Market and economics	<ul style="list-style-type: none"> Capital availability and cost Energy and commodity prices
	1.4 Public acceptance	<ul style="list-style-type: none"> Concerns about local effects (e.g. "Not in my backyard") Just transition (e.g. local impact on employment)
	1.5 Consumer and client behaviour	<ul style="list-style-type: none"> Willingness to reduce demand and/or adapt behaviours Willingness to pay a green premium
2. PHYSICAL	2.1 Infrastructure availability and logistics	<ul style="list-style-type: none"> Availability of infrastructure and logistics for transport, distribution, and storage
	2.2 Technology	<ul style="list-style-type: none"> Technology readiness levels and innovation Efficiency improvement Technology lock-in
	2.3 Resource availability	<ul style="list-style-type: none"> Availability of land, raw materials, and other inputs
	2.4 Environmental impacts and ecosystem services	<ul style="list-style-type: none"> Climate change impact (e.g. decreased water availability for power generation)
	2.5 Labour availability	<ul style="list-style-type: none"> Availability of skilled workers

Figure 7: Typology of external dependencies that can influence a transition plan. Adapted from *Assessing the Credibility of a Company's Transition Plan: Framework and Guidance* (ATP Col)

⁴¹ WBA. (2024). *ATP-Col Guidance and Framework Document*. Available at: [link](#)

⁴² European Commission, JRC. (2025). *Company transition plans for climate change mitigation: Identifying external factors to analyze geographical dependencies in energy-intensive industries*. Available at: [link](#)

The scope of analysis should thus reflect the relevant geographic scope of influence.

In this evolving context, assessing the feasibility of transition strategies requires a forward-looking perspective and calls for FIs to anticipate how their operating environment may evolve. Scenario analysis can serve as a foundation for this process by defining a set of assumptions about external factors across different time horizons, against which strategies can be tested and quantified, including their implications for decarbonisation pathways and market dynamics. External factors may either constrain or enable the implementation of mitigation options, and their relative importance may shift overtime⁴². **Integrating these enablers and barriers into the analysis is therefore essential to ensure that transition performance is anchored in its real-world context,** rather than assessed against a standalone plan disconnected from evolving external conditions.

To support this process, the development of structured frameworks and practical tools could help operationalise the identification and management of these enablers and barriers. First, qualitative and quantitative metrics could be developed to enable FIs to map external factors (i.e. policy, regulation, market and economics, public acceptance, consumer and client behaviour, infrastructure and logistics, technology, resource availability, environmental impacts and ecosystem services, labour availability) and assess their relative degree of dependency (e.g. low, medium, high) across the real-economy sectors in which they provide financing, investment or insurance (e.g. automotive sector, real estate). Second, once these dependencies have been identified, additional metrics could assess how FIs plan to act on them. This includes clarifying the level of influence they may have in addressing these dependencies, the channels through which they intend to act (e.g. engagement, coordination with the broader ecosystem, co-designed solutions, co-investments), how these actions are prioritised, and the expected outcomes across different time horizons.

In such an increasingly complex environment, **external factors should be assessed not only individually but also in combination** in order to better understand how their interactions may influence overall transition feasibility. Although such assessments remain challenging, developing ex-post information could provide a useful step forward. Capturing information on the barriers encountered by FIs and their real-economy counterparts **could help explain why certain commitments or targets failed to materialise and identify where interventions may be needed** (by the broader ecosystem, including policymakers) to enable the transition in the real-economy. In turn, these insights could support more effective coordination across stakeholders and inform engagement efforts led by FIs with the broader ecosystem.

KEY TAKEAWAYS

EXTERNAL FACTORS: MAPPING ENABLERS AND BARRIERS TO TRANSITION FEASIBILITY



CURRENT APPROACHES & LIMITS



Current market practices provide limited visibility on how contextual conditions shape transition outcomes and interact with the actions taken by FIs, potentially biasing assessments of transition performance.



Whilst several frameworks acknowledge the role of external factors such as policy, technological, and market conditions, there is limited consensus on how to evaluate their influence on transition strategy feasibility.



WHAT IS NEEDED?



Transition assessment frameworks should require a more systematic evaluation of external enablers and barriers. Scenario analysis helps assess how strategies may perform under different future conditions.



Identification of qualitative and quantitative indicators could help FIs map their external dependencies and assess their exposure across sectors and activities. These approaches should also capture how multiple external factors interact, since transition outcomes are rarely driven by a single variable alone.



Finally, greater transparency around implementation barriers would strengthen transition assessments and help pinpoint where additional policy support, market incentives, or ecosystem-level interventions are needed to enable an effective transition.

Recent research highlights a significant **ambition-credibility gap** between climate commitments and the trajectories implied by historical performance and investment plans⁴³. This raises a key challenge: assessing whether announced targets and transition strategies translate into actual decarbonisation outcomes. Addressing this challenge requires stronger ex-post monitoring of transition performance, focusing not only on commitments but also on their effective implementation and their contribution to the decarbonisation of the real-economy. However, the current landscape of transition performance metrics has been largely shaped by the development of ex-ante approaches.

The focus must now be expanded toward approaches that **verify whether these commitments have been effectively implemented and measurably contributed** to the decarbonisation of the real-economy. **After the talk comes the walk**. Strengthening such ex-post monitoring could also help bridge the micro and macro levels, since the assessment of individual FIs' transition performance could support the broader monitoring of the financial sector's contribution to the objectives of Article 2.1(c) of the Paris Agreement, particularly given that many financial actors operate “at a number of steps removed from real-economy activities”⁴⁴.

The maturity of market indicators remains limited when it comes to assessing the ex-post effectiveness of FIs' transition. Current approaches offer limited means to evaluate whether FIs have effectively delivered on their commitments and whether these actions have translated into tangible outcomes. Developing indicators focused on historical performance could therefore play a critical role. Such indicators should help assess several dimensions of FIs' transition strategies, including the achievement of committed targets, the resulting changes in associated emissions and their contribution to the real-economy decarbonisation, and the effective implementation and results of pledged actions.

Regarding **targets**, there is a need to assess whether the commitments made by FIs have been achieved and, where they have not, to evaluate the magnitude of the gap, the

⁴³ Although this analysis focuses on real economy actors, its conclusions are particularly relevant for FIs, as the reallocation of financing and adjusting portfolio composition occur over longer time horizons than operational changes at the corporate level. See Scientific Portfolio. (2025). *Evaluating the Consistency of Companies' Decarbonisation Targets in Critical Sectors*. Available at: [link](#)

⁴⁴ Institut Louis Bachelier (ILB). (2025). *Financial Sector's Path to Global Climate Goals: A Comprehensive Framework to Assess the Consolidated Alignment of Financial Institutions*. Available at: [link](#)

credibility of the explanations provided and whether all available levers have been effectively mobilised.

Emissions and related targets, however, should be assessed through a distinct lens. As highlighted earlier in this paper, emissions should primarily function as an ex-post metric to assess whether an institution has effectively achieved its emissions reduction objectives and, more broadly, whether these reductions have contributed to the decarbonisation of the real-economy. In this context, the focus should be on understanding the drivers behind changes in FIs’ emissions performance and distinguishing genuine decarbonisation outcomes from other factors. However, the market currently lacks a common understanding of these drivers, which may lead to inconsistent interpretations across data providers and stakeholders.

Regarding **actions**, monitoring should go beyond simply verifying whether actions were initiated. It should assess whether FIs have met their objectives related to these actions, whether the expected results were achieved within the committed time horizon and whether these actions have measurable and verifiable outcomes for real-economy decarbonisation. Given the diversity of FI typologies and transition strategies, developing a flexible assessment framework may be more appropriate than a rigid set of predefined indicators.

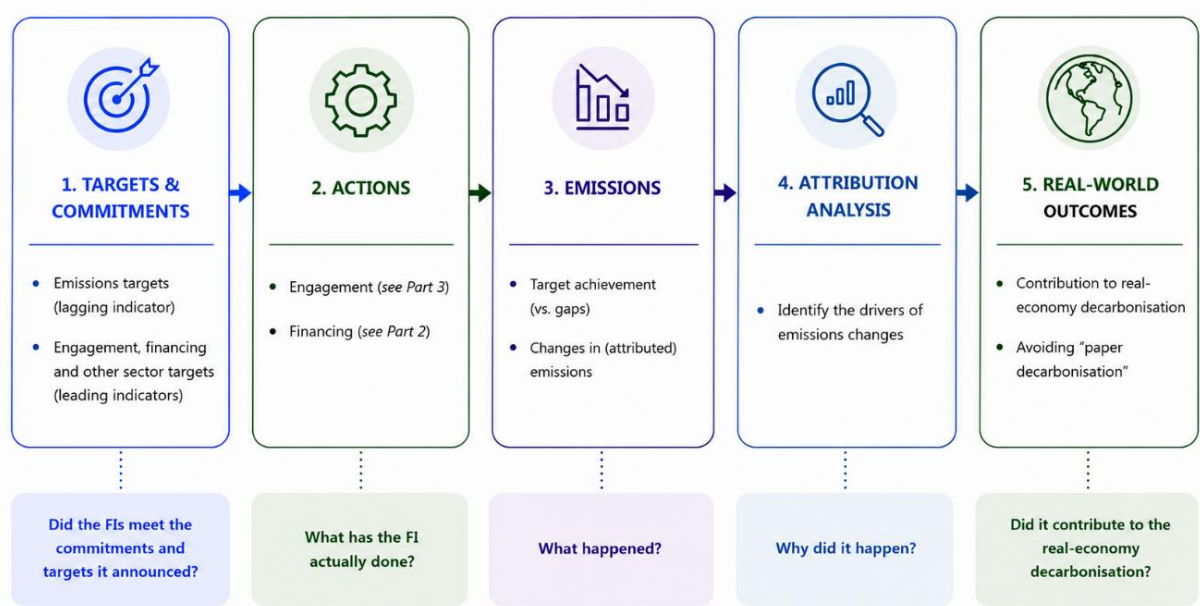


Figure 8: Breakdown of the ex-post monitoring analysis for assessing financial institutions' climate trajectories

To avoid the risk of “paper decarbonisation”, there is a need to attribute historical emissions performance to specific factors or decisions and to isolate the share of reductions effectively linked to the decarbonisation of the underlying assets. Also referred to as **attribution analysis**, this approach draws on methods used in traditional

financial performance analysis while following a similar logic to the Kaya Identity⁴⁵ to **attribute changes in the carbon emissions of investments to specific drivers** and to isolate the share of decarbonisation effectively linked to the real-economy.

While research and practical applications of this approach are emerging⁴⁶, existing methodologies address the problem in different ways and often focus on specific dimensions while overlooking other drivers. There is therefore a need to consolidate existing approaches into a more coherent and comprehensive analytical framework.

Among the emerging work, the NZIF, for instance, builds on the approach initially developed by the NZAOA and proposes four different categories of drivers: asset-level emissions metrics, portfolio composition, financial metrics and data⁴⁷. Asset level emissions relate to the real-world decarbonisation of the underlying assets in which the FI has remained invested over the assessed period. The data category captures changes linked to data coverage, data quality, and methodological updates. Portfolio composition refers to changes in emissions resulting from capital allocation decisions, such as divestment, sectoral or geographical reweighting, or stock selection.

 ASSET-LEVEL EMISSIONS METRICS	Intensity	Emissions change due to reductions or increases in the underlying assets' emissions intensity profiles.
	Absolute	Emissions change due to reductions or increases in the underlying asset's absolute emissions profiles.
 PORTFOLIO COMPOSITION	Divestment	Emissions change due to the removal of holdings from the portfolio.
	New investment	Emissions change due to the addition of new holdings to the portfolio.
	Inter-sectoral and/or regional weight change	Emissions change resulting from a shift in sectoral or regional composition of the portfolio.
	Intra-sectoral weight change	Emissions change resulting from the reweighting of holdings <i>within</i> an industry.
 FINANCIAL METRICS	EVIC	Emissions change due to a change in the value of Enterprise Value Including Cash (denominator).
	Revenue	Emissions change due to a change in assets' sales or revenues (denominator).
	Change in financing structure	Emissions changes due to the equity/debt financing structure of the company.
 DATA	Data coverage	Emissions change due to a change in data coverage across holdings.
	Methodological change	Emissions change due to a change in the underlying methodology for emissions data.
	Data quality	Emissions change due to an increase in data quality across portfolio companies, such as an asset restating emissions data.

Figure 9: Key drivers of portfolio emissions change, Adapted from the *Net Zero Investment Framework (NZIF)* (IIGCC).

⁴⁵ Kaya identity is an environmental-economic identity that decomposes changes in real economy emissions into distinct drivers.

⁴⁶ See for instance: EDHEC Climate Institute. (2024). *Attribution Analysis of Greenhouse Gas Emissions Associated with an Equity Portfolio: A Comparison of Existing Frameworks*. Available at: [link](#) ; London Stock Exchange Group (LSEG). (2024). *Decarbonisation Portfolio Benchmarks Report*. Available at: [link](#) ; ING. (2024). *Climate Progress Update 2024*. Available at: [link](#) ; UNEP FI. (2023). *Emission Attribution Analysis Discussion Paper*. Available at: [link](#) ; 2° Investing Initiative (2DII). (2023). *Real Economy Transition Risk (RET) Framework Report*. Available at: [link](#) ; MSCI. (2022). *MSCI ESG Ratings Methodology*. Available at: [link](#)

⁴⁷ IIGCC. (2024). *Net Zero Investment Framework: Implementation Guidance for Objectives and Targets*. Available at: [link](#)

It is important to note that when FIs emissions are adjusted through attribution factors, financial metrics play a critical role in the ex-post monitoring process, as they capture variations linked to financial and economic fluctuations⁴⁸. When using unattributed emissions or methodologies designed to track FIs' decarbonisation while correcting attribution biases ex-ante (e.g. Indicators for Portfolio-related Emission Performance (IPEPs)⁴⁹ or Weighted Average Carbon Intensity (WACI)), the financial metrics category can be set aside. This allows the analysis to focus on the remaining drivers, which reduces analytical noise⁵⁰ and provide a clearer view of whether investments have produced a measurable contribution to the real-economy decarbonisation.

Having a framework for **ex-post monitoring is less about compliance-driven accountability but about creating a framework to learn from results** and adjust capital allocation and engagement strategies accordingly to improve results at each capital deployment cycle⁵¹.

⁴⁸ Scientific Portfolio. (2023). *Attribution Analysis of Greenhouse Gas Emissions Associated with an Equity Portfolio: A Comparison of Existing Frameworks*. Available at: [link](#)

⁴⁹ See Green Finance Alliance (2026). *Indicators for Portfolio-related Emission Performance (I-PEPs): Methodology Standard Version 1.0*. Available at: [link](#)

⁵⁰ EDHEC Climate Institute. (2024). *Attribution Analysis of Greenhouse Gas Emissions Associated with an Equity Portfolio*. Available at: [link](#)

⁵¹ Columbia Center on Sustainable Investment (CCSI) and Man Group. (2024). *Climate Allocation Compass: A Framework for Real-World Decarbonisation (Compass-FRWD)*. Available at: [link](#)

KEY TAKEAWAYS

EX-POST MONITORING: AFTER THE TALK COMES THE WALK



CURRENT APPROACHES & LIMITS



Current transition assessment approaches remain largely focused on ex-ante elements, such as targets and forward-looking commitments.



Portfolio emissions metrics are widely used as proxies for transition performance, while the monitoring of actions and policies primarily focuses on commitments and targets. As a result, **existing approaches provide limited insight into whether these efforts have translated into measurable decarbonisation outcomes in the real-economy.**



WHAT IS NEEDED?



Transition **assessment frameworks should place greater emphasis on ex-post monitoring** to provide a clearer, less biased picture of financial institutions' actual contribution to real-economy decarbonisation. In this perspective, **ex-post monitoring should be viewed primarily as a tool for evaluating the effectiveness of transition strategies and informing future decisions**, rather than as a compliance or accountability mechanism.



This requires the development of **assessment indicators designed to measure historical performance to date**. Such indicators would assess not only the extent to which targets have been met and pledged actions effectively implemented, but also their actual contribution to decarbonisation outcomes in the real-economy. In designing such indicators, three complementary dimensions could be considered:



Targets: Assess whether committed targets have been achieved and, where gaps remain, evaluate the credibility of the explanations provided as well as the extent to which available transition levers have been mobilised.



Emissions: Assess historical emissions performance through attribution analysis, distinguishing reductions linked to genuine decarbonisation of underlying assets and economic activities from those resulting from portfolio effects, market dynamics, valuation changes, or methodological factors.



Actions: Examine whether pledged financing, investment, engagement, or portfolio management actions have been effectively implemented, whether they delivered the expected results within the committed timeframe, and whether they generated measurable and verifiable impacts on real-economy decarbonisation.

APPENDIX - FI TRANSITION FRAMEWORKS: INDICATORS & DEFINITIONS

Given the key role that FIs could play in delivering real-world outcomes, and the fact that their contributions and available levers differ depending on their type, four dedicated frameworks have been developed, each tailored to a specific category of FI: banks, asset managers (AMs), asset owners (AOs), and insurers.

This work builds on the extensive body of existing methodologies, guidance, voluntary and regulatory frameworks, data providers' frameworks, and assessment tools, while critically assessing their strengths and limitations, with a focus on indicators that are both theoretically relevant for assessing transition performance and operationally implementable. This process was complemented by ongoing exchanges with financial institutions and data providers to refine the approach, ensuring that it builds on existing practices and needs while addressing identified gaps through the introduction of additional indicators where needed.

At a high level, each framework is structured around a set of core themes, largely inspired by the Transition Plan Taskforce (TPT), ACT Finance, SBTi, and net-zero initiatives. These themes follow a progressive logic, moving from governance and strategic intent through to implementation and, ultimately, outcomes.



Figure 10: A Progressive Framework for Financial Institutions' Transition: From Strategy to Real-World Outcomes

The indicators and their definitions are organised by theme. Within each theme, every indicator carries a label identifying its scope, either **transversal** (applying across all FI types) or **FI-specific** (applying only to a given category of financial institution).

The following pages present these indicators and their definitions.

BOX – INSURERS: A THREE-DIMENSIONAL FRAMEWORK

For insurers, the framework assesses three distinct dimensions: underwriting, investing, and the consistency between the two.

The investing dimension mirrors that of asset owners and is therefore labelled accordingly, while the underwriting dimension is labelled as insurer-specific.

The third dimension assesses the consistency between an insurer's underwriting and investing activities and reflects the FIT's Total Balance Sheet Principles⁵².

⁵² See FIT. (2025). *A Total Balance Sheet Transition: A holistic transition plan guide linking the underwriting and investment portfolios of insurers and reinsurers*. Available at: [link](#). **More recently, FIT has published additional guidance translating the six Total Balance Sheet Principles into practical implementation guidance.** See FIT. (2026). *Insuring and Investing in the Transition: How insurers and reinsurers can turn the Total Balance Sheet Transition Plan Principles into practice*. Available at: [link](#)



GOVERNANCE / STRATEGY

ASPECTS TO BE MEASURED IDEALLY

Objectives

TRANSVERSAL

Climate objectives should be coherent, actionable, and operationalised across the institution.

Evaluate the coherence and robustness of the climate objectives, including whether they are sufficiently developed to guide the implementation of a concrete strategy and how they align with the overall financing strategy.

Framework for Strategic Capital Allocation and Portfolio Construction

TRANSVERSAL

Capital allocation decisions should demonstrate alignment with climate objectives.

Assess whether the financial institution conducts detailed analyses of local and sectoral transition pathways and associated decarbonisation levers, identifies financing gaps across sectors and geographies, and articulates a strategic intention to help close these gaps by mobilising the full range of asset classes through a multi-asset investment and engagement strategy. The assessment should also consider whether the institution evaluates the financial implications of its transition-financing strategies and explains how it intends to manage related trade-offs effectively.

Just Transition

TRANSVERSAL

Climate strategies should integrate just transition considerations across investment and engagement processes.

Measure whether the FI has both a just transition policy and systems in place to integrate just transition principles into engagement practices and investment processes, ensuring that clients and portfolio companies incorporate these principles into their business practices. In practice, however, it remains unclear how FIs can fully integrate this within their mandate.

External Factors

TRANSVERSAL

Institutions should assess and address external barriers influencing climate outcomes.

Assess whether institutions evaluate their external dependencies and remain informed about those of their portfolio companies and clients through engagement practices. Overall, FIs and companies should assess the nature of external dependencies (e.g. climate policies, grid carbon intensity, renewable energy potential, technological progress, etc.), the extent to which these dependencies are material, and the extent to which constraints can be mitigated through engagement with the broader ecosystem to develop solutions. Communication on these aspects, particularly toward policymakers, is critical to ensure the adequate deployment of climate-related public policy.

Responsibility at Highest Level of Governance

TRANSVERSAL

Climate considerations should be embedded within governance and decision-making structures.

Measure the existence of high-level climate responsibility and expertise at both CEO and board levels. This should include assessing: whether there is clear leadership accountability for the climate strategy (e.g. board approval of the climate or transition strategy, regular inclusion of the strategy on board meeting agendas, and board accountability for delivery); whether climate expertise is sufficiently comprehensive, including understanding of policy, technology, economic and consumption drivers of the transition, as well as physical risks and adaptation needs; whether this expertise is effectively used by individuals or committees to inform high-level decision-making within the company.



GOVERNANCE / STRATEGY

ASPECTS TO BE MEASURED IDEALLY

Remuneration Indexed to Climate Performance

TRANSVERSAL

Incentive structures should support long-term climate objectives.

Assess whether performance measurement frameworks focused on short-term financed emissions reduction effectively capture the FI's contribution to real-economy decarbonisation. Such approaches may create adverse incentives by encouraging the divestment of carbon-intensive assets without supporting their decarbonisation or managed phase-out. The assessment should therefore consider whether financing targets, rather than financed emissions reductions alone, are appropriately designed to drive meaningful transition outcomes.

Company's Institution in Charge of Implementation

TRANSVERSAL

Clear responsibilities should support effective execution of climate strategies.

Assess whether the institution has established an implementation committee, team, or function responsible for the operational implementation of the climate strategy, with sufficient authority to influence regular investment operations.

Skills, Competencies and Training

TRANSVERSAL

Climate expertise should be developed across the organisation.

Assess whether the institution undertakes efforts both to recruit climate expertise and to provide climate-related training to all staff.

Integration of objectives into investment mandates of portfolio managers

ASSET MANAGERS

Investment mandates should explicitly and bindingly incorporate climate-related objectives.

Verify whether investment mandates explicitly incorporate the climate-related objectives defined in the strategy, and whether these requirements are binding, operationalisable, and monitored over time. The metric should also assess the clarity and consistency of mandate provisions across portfolios and asset classes.

AM Selection process

ASSET OWNERS

AM selection processes should treat climate strategy alignment as a material criterion.

Assess whether the AO has a structured and systematic process to evaluate AM climate strategies and objectives throughout the manager selection process, including longlisting, shortlisting, and in-depth due diligence, and whether climate considerations are treated as material selection criteria. This should include assessing how climate considerations are integrated into asset analysis, portfolio construction, and risk management, as well as the extent to which the asset manager's strategy aligns with the AO's climate strategy.

Adherence to recognised climate frameworks (for AMs)

ASSET OWNERS

AOs should require AMs to adhere to recognised climate frameworks and demonstrate ongoing compliance.

Assess whether the AO requires AMs to adhere to recognised and credible climate-related frameworks or alliances (e.g. PRI, NZIF, NZAOA) as a minimum expectation, and whether the AO goes beyond formal signatory status by requiring regular reporting demonstrating ongoing compliance.

Integration of climate KPIs into mandates

ASSET OWNERS

Climate KPIs embedded in mandates should be quantified, binding, and designed to drive real investment decisions.

Assess whether the AO embeds clear, quantified, and time-bound climate-related KPIs into asset manager investment mandates across all mandate types (discretionary, active, and passive). The assessment should evaluate whether these requirements are binding, operationalisable, and monitored over time, as well as the extent to which KPIs are designed to effectively influence investment decisions and engagement practices rather than remaining limited to disclosure requirements.



GOVERNANCE / STRATEGY

ASPECTS TO BE MEASURED IDEALLY

Integration of climate considerations in underwriting terms and conditions

INSURERS

Underwriting terms and conditions should reflect clear climate-related criteria across all relevant insurance lines.

Assess whether insurers integrate clear climate-related criteria into underwriting contracts across relevant insurance lines. This includes evaluating whether climate considerations are reflected in risk selection, differentiated pricing and premium structures, and whether exclusion or restriction criteria apply to activities that are significantly misaligned with climate objectives. The assessment should also determine whether underwriting practices incentivise lower-carbon behaviours, including through the development of green or transition-enabling insurance products.

Integration of climate considerations in reinsurance treaty terms and conditions

INSURERS

Reinsurance treaty terms should embed climate criteria and incentivise portfolio decarbonisation.

Evaluate whether climate-related criteria are embedded in reinsurance treaty terms across relevant lines of business. This includes examining the use of climate-adjusted pricing, capacity allocation, attachment points, and exclusion or restriction clauses for highly misaligned activities. The assessment should also determine whether treaty conditions are designed to influence cedants' underwriting practices, including incentives for portfolio decarbonisation and improved climate risk management.



TARGETS (FINANCING, EMISSIONS, ENGAGEMENT)

ASPECTS TO BE MEASURED IDEALLY

Targets' architecture consistency

TRANSVERSAL

Climate targets should combine different kind of targets, to deliver credible decarbonisation strategy.

Assess the consistency of climate targets set by FIs. An ideal approach should combine both qualitative and structural criteria. Specifically, there is a need to understand whether a financing strategy is deployed to reach the decarbonisation targets.

Emissions targets alignment

TRANSVERSAL

Emissions targets should be measured on a cumulative basis, sector-specific, and free from attribution distortions.

Measure decarbonisation performance using cumulative emissions rather than point-in-time emissions, and evaluate targets as lagging indicators of the long-term impact of financing strategies. Account for situations in which financing decarbonisation may temporarily increase financed emissions in the short term, particularly in the context of electrification of end uses. Assess whether targets are sector-specific and based on non-attributed emissions to avoid distortions linked to economic and financial metrics. Where attributed-emissions targets are used, require a clear ex post analysis of the drivers of change to avoid supporting 'paper decarbonisation'.

Financing targets alignment (CS & credibly transitioning)

BANKS

ASSET MANAGERS

ASSET OWNERS

Financing targets should cover all FI activities and clearly define climate solutions and credibly transitioning criteria.

Evaluate climate solutions and transition-finance targets not only on their quality, but also on their alignment with sectoral investment pathways across different geographies. Assess whether targets cover all activities of a given FI, including capital market facilitation, and whether 'climate solutions' and 'credibly transitioning' activities are clearly defined. Consider both percentage-based targets (e.g. portfolio allocation targets) and traditional monetary financing targets.

Underwriting targets alignment (CS & credibly transitioning)

[Excl. Life and health lines]

INSURERS

Underwriting targets should be assessed on quality and alignment with sectoral pathways, covering both stock and flow.

Evaluate climate solutions and transition-asset underwriting targets not only based on their quality, but also on their alignment with the underwriting needs of sectoral pathways across different geographies. Assess whether the metric covers both the existing underwriting portfolio (stock) and underwriting flows, including new contracts, renewals, and related premiums, with distinct targets defined for stock and flows. Ideally, the assessment should cover relevant insurance lines, with differentiated targets where appropriate, while excluding the Life & Health segment. Ensure that 'climate solutions' and 'credibly transitioning' activities are clearly defined and consider both percentage-based targets and more traditional underwriting targets expressed in monetary terms.

Financing targets alignment (Fossil fuel) - incl. exclusion policy

BANKS

ASSET MANAGERS

ASSET OWNERS

Phase-out, exclusion, and debt-denial policies for fossil fuels should be binding, comprehensive, and aligned with sectoral pathways.

Assess the existence, scope, and level of implementation of phase-out, exclusion, and debt-denial policies related to fossil fuel financing across all relevant financial activities and asset classes. Evaluate whether these policies are binding and aligned with sectoral pathways, rather than simply existing as commitments.



TARGETS (FINANCING, EMISSIONS, ENGAGEMENT)

ASPECTS TO BE MEASURED IDEALLY

Underwriting targets alignment (Fossil fuel) - incl. exclusion policy

[Excl. Life and health lines]

INSURERS

Phase-out, exclusion, and debt-denial policies for fossil fuel underwriting should be binding, comprehensive, and aligned with sectoral pathways.

Assess a financial institution's phase-out, exclusion, and debt-denial policies related to incompatible fossil fuel underwriting activities, as well as the degree to which these policies are implemented and binding. Evaluate whether the metric covers both the existing underwriting portfolio (stock) and underwriting flows, including new contracts, renewals, and related premiums, with distinct targets defined for stock and flows. Ideally, the assessment should cover relevant insurance lines, with differentiated targets where appropriate, while excluding the Life & Health segment.

Financing targets alignment (deforestation) - incl. exclusion policy

BANKS

ASSET MANAGERS

ASSET OWNERS

Institutions should commit to ending deforestation financing within a defined and credible timeframe.

Identify whether the institution has established a goal or policy to end deforestation within a reasonable timeframe.

Underwriting targets alignment (deforestation) - incl. exclusion policy

[Excl. Life and health lines]

INSURERS

Institutions should commit to ending deforestation-linked underwriting within a credible timeframe.

Identify whether the institution has articulated a goal or policy to end deforestation within a reasonable timeframe. Assess whether the metric covers both the existing underwriting portfolio (stock) and underwriting flows, including new contracts, renewals, and related premiums, with distinct targets defined for stock and flows. Ideally, the assessment should cover relevant insurance lines, with differentiated targets where appropriate, while excluding the Life & Health segment.

Engagement target quality

TRANSVERSAL

Engagement targets should include quantitative, measurable milestones, and qualitative metrics that support effective portfolio-level climate outcomes.

Evaluate whether engagement targets include clear and credible quantitative objectives related to either the engagement process or expected outcomes. Assess the extent to which these targets translate qualitative intentions into measurable milestones that can support and monitor engagement effectiveness. Recognise that the indicator remains provisional and requires further collaborative development to define its scope, necessary quantitative elements, and assessment methodology.



ENGAGEMENT PRACTICES

ASPECTS TO BE MEASURED IDEALLY

Engagement with client / investees

BANKS

ASSET MANAGERS

Engagement with clients and investees should drive stronger corporate transitions and reduce emissions at the client/investee level.

Measure the quality and effectiveness of the engagement process. At a most basic level, robust engagement processes, including conditioning financing, should lead to stronger corporate transitions, increased financing for climate action, and reduced emissions at the client level, although establishing causality remains challenging. The analysis of clients and portfolios should support the development of financial instruments and products specifically designed to address companies' financing needs. Among these instruments, the relative impact varies significantly. Finally, the scope of engagement should also be assessed to determine whether it is meaningful across business activities.

Engagement with savers / investors

BANKS

ASSET MANAGERS

ASSET OWNERS

Engagement with savers and investors should redirect capital flows toward climate objectives and support tailored climate financial instruments.

Measure the extent to which engagement efforts redirect capital flows toward climate objectives. Robust engagement should encourage greater capital allocation from savers and investors toward climate-related investments, potentially at the expense of short-term financial returns. These flows should support the development of financial instruments and products tailored to climate financing needs. The impact of these instruments varies significantly; public equity products, for example, generally have a lower direct impact because secondary markets influence the cost of capital only indirectly and under specific conditions.

Engagement with policy

TRANSVERSAL

Institutions should engage constructively with policymakers to support climate regulation and discourage lobbying that undermines the transition.

Evaluates whether the institution engages constructively with policymakers to support effective climate regulations while discouraging lobbying that undermines the transition.

Engagement with broader ecosystem to identify financing solutions

BANKS

ASSET MANAGERS

Financial institutions should mobilise stakeholders to build credible and long-lasting efforts that enlarge investable markets.

Evaluate the ability of financial institutions to mobilise other stakeholders around climate solutions through credible and long-lasting efforts to rally actors such as other financiers, climate solution enablers, climate solution providers, off-takers, policymakers, and regulators in order to enlarge investable markets.

Engagement with larger ecosystem of stakeholders to grow insurable solutions

INSURERS

Insurers should lead credible and sustained efforts to enhance insurability and enlarge insurable markets through broad stakeholder mobilisation.

Evaluate the extent to which insurers lead credible and sustained efforts to enhance insurability and enlarge insurable markets by mobilising stakeholders such as reinsurers, financiers, climate solution enablers, climate solution providers, policymakers, and regulators.

Engagement with index providers

ASSET MANAGERS

Asset managers should engage index providers to integrate climate considerations into benchmarks and support transition objectives.

Assess the extent to which financial institutions influence capital allocation toward climate objectives, including through structured engagement frameworks with index providers. Such frameworks should enable institutions to influence inclusion and weighting rules to ensure that benchmarks effectively integrate climate considerations and support transition objectives.



ENGAGEMENT PRACTICES

ASPECTS TO BE MEASURED IDEALLY

Engagement with portfolio companies

ASSET OWNERS

Engagement with portfolio companies should drive long-lasting transitions and reduce emissions meaningfully across all business activities.

Assess the quality and effectiveness of engagement processes across business activities. Robust engagement practices, including conditioning financing, should contribute to stronger corporate transitions, increased financing for climate action, and reduced client-level emissions, even if causality remains difficult to establish. Engagement efforts should also extend meaningfully across the full scope of business activities.

Voting control

ASSET OWNERS

Asset owners should require asset managers to apply a systematic, climate-focused voting policy across all mandate types.

Assess whether AOs require AMs to apply a clearly defined climate-focused voting policy across all relevant mandate types, including active, passive, and discretionary mandates. This should include climate-related shareholder resolutions, such as 'Say on Climate', and evaluate whether climate criteria are systematically integrated into voting decisions related to governance structures, executive remuneration, and corporate strategy, rather than applied selectively.

Escalation policy

ASSET OWNERS

Asset owners should have a formal, publicly articulated escalation policy with graduated actions and clear decision-making responsibilities.

Assess whether asset owners have a formal and publicly articulated escalation policy applicable to asset managers in relation to climate-related objectives and expectations. The assessment should examine whether the policy defines clear escalation triggers, timelines, and decision-making responsibilities, and whether it includes graduated levels of action ranging from enhanced dialogue and corrective action plans to mandate restrictions, mandate termination, reputational measures, or legal and contractual remedies.

Expectations on AM climate lobbying

ASSET OWNERS

Asset owners should require asset managers to actively support climate regulation and refrain from misaligned lobbying activities.

Assess whether asset owners require asset managers to engage with policymakers in support of effective climate regulation and to refrain from lobbying activities that could undermine the transition. The assessment should examine whether these expectations are clearly articulated, apply to both direct and indirect lobbying activities, and are supported by disclosure and monitoring requirements aligned with the asset owner's climate objectives.

Engagement with insured clients

INSURERS

Insurers should implement a structured and differentiated engagement framework tailored to commercial and personal lines clients.

Assess whether insurers implement a structured and differentiated engagement framework tailored to the characteristics of commercial and personal lines clients. The assessment should evaluate the quality and effectiveness of engagement processes, the meaningful scope of engagement across relevant insurance activities, and the existence of clear objectives.

Engagement with Life & Health insured clients

INSURERS

Insurers should promote climate risk awareness and behavioural change among Life & Health clients through education, incentives, and prevention programmes.

Assess whether insurers promote awareness of climate-related risks, support prevention measures, and encourage behavioural change through education, incentives, or the promotion of climate-related insurance products. The assessment should evaluate the scope and scale of these initiatives, including incentive programmes and awareness campaigns, as well as the extent to which climate-related co-benefits are integrated into programme design.



ENGAGEMENT PRACTICES

ASPECTS TO BE MEASURED IDEALLY

Engagement across distribution channels

INSURERS

Climate-related criteria should be applied consistently in underwriting decisions across all distribution channels.

Assess whether climate-related criteria are applied consistently in underwriting decisions across distribution channels. The assessment should also evaluate insurers' capacity to respond to intermediaries' requests for climate-related products and whether distribution channels actively support the promotion of these products.

Engagement with repair value chain

INSURERS

Insurers should engage repair partners to promote low-carbon and circular repair practices that strengthen long-term resilience.

Assess whether insurers engage in a structured manner with loss adjusters, experts, and repair partners to promote low-carbon and circular repair or reconstruction options. This includes prioritising repair over replacement where feasible, encouraging the reuse of parts and materials, and favouring low-impact materials consistent with 'build back better and greener' approaches that strengthen long-term resilience.

Engagement across the reinsurance relationship

INSURERS

Reinsurers should influence insurers' underwriting capacity and climate risk appetite through treaty design aligned with climate objectives.

Assess how reinsurers influence insurers' underwriting capacity and climate-related risk appetite through reinsurance relationships and treaty structures. The assessment should examine whether reinsurers shape underwriting policies, risk appetite, and underwriting capacity through treaty design and conditions aligned with climate-related objectives. It should also evaluate the level of transparency and ongoing dialogue between counterparties regarding exposures to high-impact sectors.



CURRENT FINANCING ALIGNMENT

ASPECTS TO BE MEASURED IDEALLY

Current financing to climate solutions and credibly transitioning assets alignment

BANKS

ASSET MANAGERS

ASSET OWNERS

Portfolio allocations toward climate solutions and transitioning assets should be compared against science-based sectoral pathways.

Assess whether financial flows and portfolio allocations are being redirected at an appropriate pace toward counterparties aligned with geographically specific sectoral transition pathways. The assessment should compare current allocations to climate solutions and transitioning assets with science-based pathways and decarbonisation benchmarks in order to evaluate the scale of financial efforts already undertaken and those still required. A key challenge remains the limited availability of local sectoral financing pathways.

Current underwriting to climate solutions and credibly transitioning assets alignment

[Excl. Life and health lines]

INSURERS

Underwriting flows and portfolio allocations toward climate solutions should be tracked against science-based pathways, covering both stock and flows.

Assess whether underwriting flows and portfolio allocations are being redirected at an appropriate pace toward counterparties aligned with geographically specific sectoral transition pathways. The assessment should cover both the existing underwriting portfolio (stock) and underwriting flows, including new contracts, renewals, and related premiums, with distinct targets defined for stock and flow exposures. It should compare current allocations to climate solutions and transitioning assets with science-based pathways and decarbonisation benchmarks in order to evaluate the scale of underwriting efforts already undertaken and those still required.

Current financing / facilitated finance to fossil fuels alignment

BANKS

ASSET MANAGERS

ASSET OWNERS

The share and absolute amount of portfolios allocated to fossil fuels should be systematically tracked.

Assess the share of portfolios allocated to fossil fuel assets, as well as the absolute amounts associated with financing and facilitating activities linked to fossil fuels.

Current underwriting to fossil fuels alignment

[Excl. Life and health lines]

INSURERS

The level of exposure of underwriting portfolios to fossil fuel assets should be measured across both portfolio shares and absolute amounts.

Measure the level of exposure of underwriting portfolios to fossil fuel assets, including both portfolio shares and absolute exposure amounts. The assessment should cover both the existing underwriting portfolio (stock) and underwriting flows, including new contracts, renewals, and related premiums, with distinct targets defined for stock and flow exposures.

Current financing deforestation & biodiversity collapse

BANKS

ASSET MANAGERS

ASSET OWNERS

Financial flows contributing to the degradation of natural ecosystems and deforestation-related activities should be identified and measured.

Assess the extent to which financial flows contribute to the degradation of natural ecosystems, including deforestation-related activities.

Current underwriting deforestation & biodiversity collapse

[Excl. Life and health lines]

INSURERS

Underwriting activities contributing to the degradation of natural ecosystems should be identified, covering both portfolio and underwriting flows.

Assess whether underwriting activities contribute to the degradation of natural ecosystems, including deforestation-related activities. The assessment should cover both underwriting portfolios and underwriting flows, including new contracts, renewals, and related premiums.



CURRENT FINANCING ALIGNMENT

ASPECTS TO BE MEASURED IDEALLY

Green to brown energy supply ratio

BANKS

ASSET MANAGERS

ASSET OWNERS

The green-to-brown energy ratio should rely on consistent definitions.

Assess the balance between financial flows directed toward green energy and fossil fuel energy supply. To ensure relevance and comparability, both sides of the ratio should cover the same scope of financial activities and rely on consistent definitions of 'green' and 'fossil fuel' activities across the framework. The assessment could also consider classifying companies primarily based on the composition of their CAPEX rather than their revenues, in order to better capture whether financing flows support transitioning activities or carbon-intensive activities.

Current Financing to EMDEs

BANKS

ASSET MANAGERS

ASSET OWNERS

Financial flows toward development finance institutions should be tracked, including blended finance structures and ethical debt practices.

Assess financial flows directed toward development finance institutions, including MDB bonds and co-financing of B-loans, as well as flows supporting blended finance structures and other investment strategies. The assessment should also examine ethical practices related to debt structuring.



EMISSION MONITORING

ASPECTS TO BE MEASURED IDEALLY

Ex post monitoring and real-world impact

TRANSVERSAL

Historical emissions trends should be assessed using attribution analysis to distinguish real-world reductions from portfolio reallocation effects.

Assess historical emissions trends and use attribution analysis to distinguish real-world emissions reductions from portfolio reallocation effects. The assessment should rely on standardised carbon metrics and integrate emissions monitoring with financial flow analysis in order to evaluate the extent to which financial flows contribute to emissions reductions.

Carbon Offsets

TRANSVERSAL

The use of carbon credits should be assessed at both institution and company levels, including their role in emissions accounting and target achievement claims.

Assess the use of carbon credits at both the financial institution and company levels, including their role in emissions accounting and target achievement claims. The assessment should examine whether offsets are used to support claims of emissions reductions or progress toward climate targets.

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ACRONYMS

ACT: Assessing low-Carbon Transition

ADEME: French Agency for Ecological Transition

AI: Artificial Intelligence

AM: Asset Manager

AO: Asset Owner

ATP-Col: Assessing Transition Plan Collective

CAPA: Consolidated Alignment Performance Analytics

CapEx: Capital Expenditures

CCSI: Columbia Center on Sustainable Investment

CMA: Capital Market Assumptions

CPI: Climate Policy Initiative

CTB: Climate Transition Benchmark

DFI: Development Finance Institution

EMDEs: Emerging Markets and Developing Economies

ESG: Environmental, Social and Governance

EVIC: Enterprise Value Including Cash

FI / FIs: Financial Institution(s)

FINZ: Financial Institutions Net-Zero Standard

FIT: Forum for Insurance Transition to Net Zero

FSEG: Finance Sector Expert Group for Race to Zero and Race to Resilience

GFANZ: Glasgow Financial Alliance for Net Zero

GHG: Greenhouse Gas

IIGCC: Institutional Investors Group on Climate Change

IPEPs: Indicators for Portfolio-related Emission Performance

JRC: Joint Research Centre (European Commission)

KPI: Key Performance Indicator

NDC: Nationally Determined Contribution

NGOs: Non-Governmental Organisations

NZ: Net Zero

NZAMI: Net Zero Asset Managers Initiative

NZAOA: Net-Zero Asset Owner Alliance

NZIF: Net Zero Investment Framework

OECD: Organisation for Economic Co-operation and Development

PAB: Paris-Aligned Benchmark

PARC Foundation: Paris Agreement Research Commons Foundation

PCAF: Partnership for Carbon Accounting Financials

PPP: Public Private Partnerships

PRI: Principles for Responsible Investment

SAA: Strategic Asset Allocation

SBTi: Science Based Targets initiative

SFDR: Sustainable Finance Disclosure Regulation

SLBs: Sustainability-Linked Bonds

TPT: Transition Plan Taskforce

TSP: Target Setting Protocol

UN: United Nations

WACI: Weighted Average Carbon Intensity

WBA: World Benchmarking Alliance



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