

Metrics for Climate Transition and Net-Zero GHGs in Finance

Supporting climate policy goals and avoiding greenwashing

Key takeaways

- The rise of financial sector initiatives supporting net-zero GHGs has brought welcome commitments from financial institutions to transition, but real-economy decarbonisation impacts remain unclear.
- Credibly measuring the progress of investors and financial institutions towards climate transition and net-zero emissions requires the identification and development of a series of precise complementary metrics, grounded in the latest climate science.
- However, current inconsistent climate performance assessment results, based on disparate methodologies and nascent metrics, pose a challenge in terms of environmental and financial market integrity.
- Transparency and granularity are key elements of credible metrics and assessments to address greenwashing risks.
- Climate mitigation performance metrics are needed for each and all asset classes, and underlying real-economy actors and activities, to avoid blind spots within financial institution's portfolios.
- Efforts to track progress need to place further emphasis on assessing near-term action, in addition to tracking long-term GHG targets.
- Remaining methodological and data challenges complicate aggregate assessments, within a given asset class, and even more so across asset classes, thereby increasing greenwashing risks.
- Embedding metrics and assessments of progress within broader existing frameworks can strengthen the credibility and integrity of net-zero tracking and climate-alignment initiatives.
- Coordination is needed to promote interoperability and complementarity across national, regional and global initiatives to facilitate and enhance international-level efforts to assess progress.

This note summarises discussions that took place on 22 February 2023, under Chatham House Rule, during an OECD-hosted [workshop on Metrics for Climate Transition and Net-Zero GHGs in Finance: Supporting climate policy goals and avoiding greenwashing](#). The genesis of the workshop was primarily informed by the OECD working paper '[Assessing the climate consistency of finance: Taking stock of methodologies and their links to climate mitigation policy objectives](#)' (published in October 2022). This summary was authored by Jolien Noels and Raphaël Jachnik from the OECD Environment Directorate. Its content should not be interpreted as reflecting views or opinions of individual presenters, panellists and participants of the workshop, nor of the institutions they represent.

The workshop was hosted by the OECD Research Collaborative on Tracking Finance for Climate Action, based on funding provided by a range of OECD member countries. It is part of a series of Research Collaborative workshops related to assessing progress towards Article 2.1c of the Paris Agreement. This workshop also contributes to a series of three OECD workshops on "Climate Science, Policy, Regulation and Practice" funded by ADEME and Institut de la Finance Durable in the context of the Finance ClimAct initiative, supported by a grant from the LIFE program.

Opening session: Importance of environmental integrity in climate-related assessments of finance

Notwithstanding the need for ambitious, coherent and predictable climate policy and regulation, financial sector voluntary and market-driven initiatives supporting net-zero GHGs have a role to play in the achievement of the Paris Agreement goals. However, despite science clearly highlighting the need for near-term mitigation action, there is a lack of evidence that net-zero targets are translating into GHG reductions in the real economy. The gap between current promises and policies or actions brings uncertainty on whether targets can be achieved.

Net-zero targets need to be rigorous and clear, so that the strategies behind them can be understood, transitions implemented and their impact evaluated. With this in mind, governments and the private sector, including investors and financiers, need to clarify three aspects of their targets: their scope, their adequateness and fairness, and their concrete road maps towards net zero.

Progress is not optional. It needs to be transparently measured, reported, and verified. Hence, environmental integrity is needed when developing and implementing the metrics to track and assess climate mitigation progress.

Session 1: Metrics and indicators supporting net zero for different financial assets

Existing metrics to track the climate mitigation performance of financial assets have unique but also overlapping strengths and limitations. Variation in assessments across providers can undermine environmental integrity.

There is growing consensus for a need for a series of complementary metrics, covering all asset classes, including enhanced metrics and data on GHG emissions as well as on relevant non-GHG indicators, including in relation to transition plans and actions to implement those.

Corporate equity and debt

Historic, current, and forward-looking metrics for the short, medium, and long term are needed to effectively measure corporate climate mitigation performance. A more holistic assessment of a company's decarbonisation and transition plan can be gained by complementing GHG metrics with other metrics relating to production plans, capex and technology-based metrics.

Compiling such a range of metrics requires high quality and transparent climate data. Remaining data challenges include the availability of granular information behind net-zero targets, such as on their boundaries and coverage, Scope 3 emissions, degree of reliance on offsets, and details on transition plans, to ensure proper measurement of progress. Overall, data challenges are more acute for unlisted companies, SMEs, business loans, as well as generally in emerging market and developing economies. Such data and coverage gaps can result in misleading climate mitigation performance measurement of the corporate sector, for example if investments shift to uncovered areas.

Moreover, such metrics need to be grounded in and kept up to date with the latest climate science, notably in the context of using climate mitigation scenarios as reference points for setting targets and assessing progress.

As a result of these remaining challenges, there is need for further incentives, coordination and verification to create consistency in measuring climate performance of corporates and enabling transition finance.

Challenges and areas for further work

- Full set of backward-looking, current and forward-looking GHG metrics
- Complementary non-GHG metrics of real-economy impacts and transition plans
- Data and metrics for private equity and corporate debt, as well as EMDEs
- Transparent and comparable metrics and underlying data

Sovereign bonds

Many of the considerations for the type of metrics needed to assess the climate performance of sovereign bonds carry over from corporate equity and debt. This includes the need for multidimensional, complementary metrics, as well as greater data availability, transparency, and quality. Additionally, as for corporates, national net-zero targets lack credibility on near-term action and require further transparency and detail. Notably, more detailed information on how policies contribute to climate trajectories is needed.

Assessing the climate performance of countries also points to specific challenges, such as the need to downscale global climate mitigation scenarios and pathways to the national level. This can rely on different approaches such as global cost- and economic-effectiveness or fair share (including issues relating to different capacities), thereby yielding different results.

Real estate

The context-specificity inherent to building types and geographic location of real estate assets introduces additional considerations in tracking their climate performance. To avoid regional biases when benchmarking, downscaled pathways need to be further developed, considering both building type and geography. Both energy and carbon intensity metrics (with consistent denominations, typically per square area) can provide complementary information to account for and shed light on the balance between buildings' own energy efficiency (Scope 1) and the part of the performance relating to the energy source (Scope 2). Significant improvements in data availability are needed to assess targets are enabling the transition.

Challenges and areas for further work

- Full set of backward-looking, current and forward-looking metrics of climate performance of real estate and sovereign bonds
- GHG and complementary non-GHG metrics
- Downscaling approaches to account for geographic and/or sector specificity
- Data availability and transparency

Session 2: Aggregate and complementary metrics at the level of financial portfolios, institutions and centres

There is a demand for aggregating asset-level metrics so as to assess progress at the level of financial portfolios, institutions and centres. However, a range of technical and practical challenges complicate such aggregation and expose it to significant risks of greenwashing.

Pilot projects and studies can be used as learning tools. Such work found that a single aggregate metric is not fit for purpose, and that, similarly to learnings to date at the level of individual asset classes, having a set of complementary indicators is key. This includes backward, current, and forward GHG metrics, as well as non-GHG metrics, including additional indicators relating to engagement (with investees and borrowers), investment strategy (e.g. towards climate solutions, transition activities, managed phase out, etc.), as well as training and education. Importantly, these metrics need to set incentives for near-term decreases in real GHG emissions, rather than only inform portfolio risk assessments and allocation adjustments.

In this context, aggregation of GHG metrics across asset classes may neither be informative (e.g. obscure poor performing portfolio segments), nor robust (e.g. hidden coverage gaps, methodological inconsistencies, double counting risks). A bottom-up perspective allows for nuances relating to different sectors and asset classes to be accounted for and reflected. Within each asset class, the lack of transparently available data from investees and borrowers remains a barrier for credible metrics at the level of financial and investment portfolios. Notably, improved data on Scope 3 financed emissions is essential.

Overall, metrics and indicators at the level of financial portfolios, institutions and centres need to be credible, comparable, and based on transparent methodologies. Areas where financial institutions can have most impact should be the focus.

Challenges and areas for further work

- Short-, mid-, and long-term metrics, both GHG and non-GHG related
- Increased clarity and evidence on asset class specific considerations within portfolio-level metrics and indicators
- Evidence on decarbonisation impacts, incentives and effectiveness of metrics, engagement and divestment
- Understand differences, or not, in metrics for different types of financial institutions

Session 3: Frameworks and coordination to strengthen the credibility and integrity of net zero tracking and climate alignment initiatives

The transition to net-zero GHGs in finance, as well as the metrics underpinning such transition, can be strengthened through more robust frameworks and greater collaboration amongst stakeholders. Individual net-zero initiatives and underlying frameworks and methodologies are still maturing, including on how to integrate environmental integrity concerns. For example, there has been mixed evidence on how financial institutions (including from public financial institutions) actually implement such net-zero commitments, including in relation to asset coverage in interim targets, integration of scope 3 emissions, and the availability of sufficient resources dedicated to implement such commitments. Further, geographic representation in climate-related financial coalitions remains unbalanced, with limited participation from stakeholder from emerging market and developing economies.

The governance processes of net-zero initiatives and commitments could be informed and strengthened by existing standards, such as the OECD framework on Responsible Business Conduct (RBC). Further global coordination is needed to develop ways to allow comparisons across methodologies while ensuring credibility and environmental integrity. At the same time, there is a need for interoperability between mandatory regulation frameworks and self-regulatory initiatives. In this context, net-zero initiatives, which are typically voluntary platforms aimed at promoting ambition, need policy makers to provide further clarity, coherence, and a level-playing field at national and international levels.

Initiatives supporting net-zero GHG emissions must be cautious for unintended consequences and consider their links to other environmental policy priorities as well as social concerns. Such links include adaptation and resilience, just transition within and across countries and sectors, as well as biodiversity. Initiatives could articulate better how to enhance their implementation, especially with respect to the context of emerging market and developing economies.

Closing session: Do not let perfect be the enemy of good

Near-term action is key and transition plans need to be executed, supported by robust metrics and assessments of progress towards actual GHG reductions. Minimum regulation needs to push for transparency. Rigour needs to be balanced with speed. In this context, assessing performance against multiple climate mitigation scenarios may provide a helpful way forward. There is in any case a need to move from tracking commitments to tracking real-economy actions. In addition to informing impactful investment and engagement decisions, this could then usefully feed into international climate processes, such as the Global Stocktake under the United Nations Framework Convention on Climate Change. Further work will need to address interlinkages with other environmental issues beyond climate mitigation that need to be considered to avoid unintended consequences of mitigation action.

Challenges and areas for further work

- Integration of best practices from established frameworks by net-zero initiatives
- Increased inclusiveness and representativity of participants in net-zero initiatives
- Link net zero and climate mitigation progress tracking to adaptation and other environmental policy as well as just transition considerations