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## Sustainable Markets Initiative Task Force Launches Transition Categorization Framework

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On January 17, the Sustainable Markets Initiative (SMI) **announced** that its **Asset Manager and Asset Owner Task Force (AMAO Task Force)** has released a **Transition Categorization Framework**. The AMAO Task Force is comprised of 34 asset managers and owners that are members of the SMI. According to the accompanying press release, the aim of the Framework is “to categorise assets that fulfil the objectives for a pathway to a net zero transition, at both a company and a project level, and ensure that investors are not simply disinvesting from the more difficult sectors especially in emerging economies.” The Framework’s definition of transition finance focuses on financing the decarbonization of five key sectors – power, buildings, mobility, industry, and agriculture. Studies suggest that these sectors combined are responsible for 95% of global emissions.

The Framework establishes five categories of transition assets to enable “investment into sectors and regions vital to the net zero transition,” four of which align with the Paris Agreement on climate change. The AMAO Task Force is also working with climate specialist organizations to support the appropriate metrics, thresholds and timelines required by a company or project to qualify for a particular category. These categories are:

- **Transitioning:** The asset is at or near net zero emissions or has a deliverable Paris-aligned pathway.
- **Committed to Transition:** The asset is committed to net zero and has a plan for evolving its business model to achieve a Paris-aligned pathway.
- **Transition Enabler:** The asset is required for the transition in other sectors and is prepared to invest to achieve net zero itself. These assets typically are inputs into infrastructure or products critical for a net zero economy.
- **Interim or Phase Out:** The asset is necessary for a period but with no role beyond 2050 or the accelerated phase-out of the asset is necessary for net zero.

- **Aiming to Transition:** The asset is committed to reducing emissions but with no clear pathway to net zero. Assets in this category do not qualify for Paris-aligned transition.

If the asset does not qualify for one of these five categories, “it is likely to be stranded in the future.”

The SMI was established by King Charles, then the Prince of Wales, at the World Economic Forum 2020 Annual Meeting in Davos. The SMI’s mission is to “build a coordinated global effort to enable the private sector to accelerate the transition to a sustainable future.” The AMAO Task Force was established to find “scalable ways for institutional investors to facilitate the reallocation of capital toward sustainable solutions, using the two most powerful levers at their disposal: 1) capital already invested in companies; and 2) fresh capital investments directed at climate mitigation and adaptation projects.” Its members include Bank of America, Blackrock, CalPERS, Goldman Sachs, HSBC, Morgan Stanley, State Street, and others.

**Taking the Temperature: The key objective of the SMI AMAO Task Force Framework is to provide guidance to investors on how to categorize economic activity and assist with the development of net zero investment strategies. The Framework recognizes, however, that a key to gaining investor acceptance is ensuring the credibility of the transition categorization. As a result, “an asset in one of the four categories qualifying for transition allocation” must demonstrate a “commitment to decarbonisation, expressed through a public undertaking to achieve net zero or otherwise unambiguously stated,” and a “credible transition plan, which, like a financial plan, shows the investor how the company aims to achieve its targets and at what cost.” In short, according to SMI, the “credibility of transition plans for high-emitting sectors is the keystone in the transition finance agenda.” In this way, the Framework represents another effort, similar in ways to the [proposed](#) UK Green Taxonomy and EU Taxonomy, among others, that seek to address the challenges associated with identifying sustainable companies, assets, and activities, recognizing that certain businesses are necessary to facilitate climate transition even if not themselves Paris-aligned. The Framework gives as one such example “a mining company producing lithium or copper as an input into solar-PV or battery technology and broad electrification.” Such a company could be categorized as a “Transition Enabler” under the SMI Framework if it satisfies certain other sustainability criteria. As we have discussed, the challenge with all these classification schemes, however, is to engender consensus among them, and therefore promote predictability regarding what does and does not constitute a [sustainable asset](#). The utility of taxonomies like the Framework will be constrained until differences among the various classification schemes are resolved, and debate is quieted about whether a particular asset should be deemed sustainable even within a single classification approach.**