Financed Emissions

The Global GHG Accounting & Reporting Standard Part A

EXECUTIVE SUMMARY

Second edition
December 2022

PCAF
Partnership for Carbon Accounting Financials

BUILT ON GHG PROTOCOL

Executive summary

The Partnership for Carbon Accounting Financials (PCAF) is a financial industry-led initiative. Created in 2015 by Dutch financial institutions, PCAF extended to North America in 2018 and scaled up globally in 2019. PCAF helps financial institutions assess and disclose the greenhouse gas (GHG) emissions from their loans and investments through GHG accounting.

GHG accounting enables financial institutions to disclose these emissions at a fixed point in time and in line with financial accounting periods. Measuring financed emissions allows financial institutions to make transparent climate disclosures on their GHG emissions exposure, identify climate-related transition risks and opportunities, and set the baseline emissions for target-setting in alignment with the Paris Agreement.

Responding to industry demand for a global, standardized GHG accounting approach, PCAF developed the Global GHG Accounting and Reporting Standard for the Financial Industry (the version of the Financed Emissions Standard). In 2020 the GHG Protocol reviewed and approved the methodologies for listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages, and motor vehicle loans. These methodologies are in conformance with the requirements set forth in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard for Category 15 investment activities. The sovereign debt methodology and the guidance on emission removals are pending GHG Protocol review and approval.

The Financed Emissions Standard provides detailed methodological guidance for specific asset classes. Widely tested by banks and investors, these methods assist in the measurement and disclosure of GHG emissions associated with seven asset classes:

Listed equity and corporate bonds

Business loans and unlisted equity

Project finance

Commercial real estate

Mortgages

Motor vehicle loans

Sovereign debt

The Financed Emissions Standard also provides guidance on the treatment of GHG emission removals in three asset classes: listed equity and corporate bonds, business loans and unlisted equity, and project finance.

The Financed Emissions Standard provides detailed guidance for each asset class to calculate the financed emissions resulting from activities in the real economy that are financed through lending and investment portfolios. Emissions are attributed to financial institutions based on robust, consistent accounting rules specific to each asset class. By following the methodologies outlined in the Financed Emissions Standard, financial institutions can measure GHG emissions for each asset class and produce disclosures that are consistent, comparable, reliable, and clear.

Limited data is often the main challenge in calculating financed emissions. However, data limitations should not deter financial institutions from starting their GHG accounting journeys. Beginning with estimated or proxy data can help financial institutions identify emission-intensive hotspots in lending and investment portfolios. The Financed Emissions Standard provides guidance on data quality scoring per asset class, facilitating data transparency and encouraging improvements to data quality in the medium and long term. The Financed Emissions Standard also provides recommendations and requirements for disclosures, which include a minimum disclosure threshold with flexibility to report beyond this level. Any requirements not fulfilled must be accompanied by an explanation.

Using this Financed Emissions Standard equips financial institutions with standardized, robust methods to measure financed emissions and enables them to:

- Assess climate-related risks in line with the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD).
- Set science-based targets (SBTs) using methods developed by the Science Based Targets initiative and other science-based methodologies.
- Report to stakeholders like the CDP.
- Inform climate strategies and actions to develop innovative products that support the transition toward a net-zero emissions economy.

WRI and WBCSD published Corporate Value Chain (Scope 3) Accounting and Reporting Standard
2011

PCAF founded by Dutch financial institutions
2015

PCAF launched in North America
2018

PCAF published 2 reports on GHG accounting methods
2019

PCAF launched globally
2019

PCAF launches Global GHG Accounting and Reporting Standard for the Financial Industry
2020

The GLOBAL GHG ACCOUNTING & REPORTING Standard

FOR THE FINANCIAL INDUSTRY

Using the Standard is the first step in the journey to align with the Paris Agreement

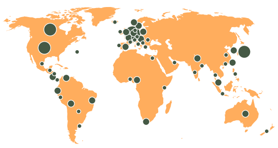
Steering

Measure & Disclose ⇄ Set Targets ⇄ Develop Strategy ⇄ Take Actions → Net-zero emissions by 2050

Scenario Analysis

Monitor Progress

PCAF



Over 340 financial institutions, with over $ 85 Trillion in financial assets committed (November 2022).

BUILT ON GHG PROTOCOL

This Standard was reviewed by the GHG Protocol and is in conformance with the requirements set forth in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard, for Category 15 investment activities.

GHG accounting for seven asset classes

Listed Equity and Corporate Bonds

$$\frac{\textit{Outstanding amount}}{\textit{EVIC or Total company equity + debt}} \times \textit{Company emissions}$$

EVIC = enterprise value including cash

Business Loans and Unlisted Equity

$$\frac{\textit{Outstanding amount}}{\textit{EVIC or Total company equity + debt}} \times \textit{Company emissions}$$

EVIC = enterprise value including cash

Project Finance

$$\frac{\textit{Outstanding amount}}{\textit{Total project equity + debt}} \times \textit{Project emissions}$$

Commercial Real Estate

$$\frac{\textit{Outstanding amount}}{\textit{Property value at origination}} \times \textit{Building emissions}$$

Mortgages

$$\frac{\textit{Outstanding amount}}{\textit{Property value at origination}} \times \textit{Building emissions}$$

Motor Vehicle Loans

$$\frac{\textit{Outstanding amount}}{\textit{Total value at origination}} \times \textit{Vehicle emissions}$$

Sovereign Bonds

$$\frac{\textit{Exposure to Sovereign Bond (USD)}}{\textit{PPP-adjusted GDP (international USD)}} \times \textit{Sovereign Emissions}$$

PCAF Partnership for Carbon Accounting Financials

The Partnership for Carbon Accounting Financials (PCAF) is an industry-led initiative enabling financial institutions to measure and disclose greenhouse gas (GHG) emissions of loans and investments.

PCAF

Partnership for Carbon Accounting Financials

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