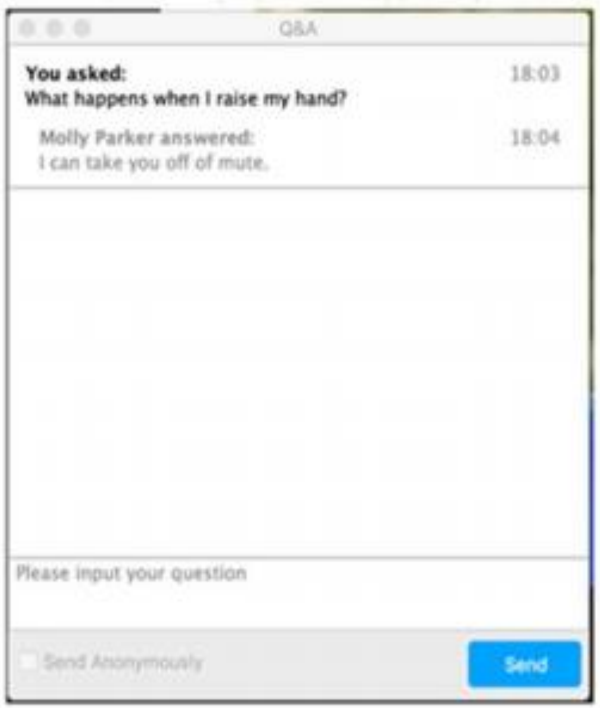
Introduction to PCAF – how to account for GHG emissions related to financial activities

30 April 2024

Ask a question



To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.

ICAEW

Did you know?

FROM 1 NOVEMBER 2023, ICAEW'S REVISED CONTINUING PROFESSIONAL DEVELOPMENT (CPD) REGULATIONS BROUGHT IN NEW CPD REQUIREMENTS, INCLUDING A MINIMUM NUMBER OF HOURS AND AN ETHICS REQUIREMENT.

THIS WEBINAR COULD CONTRIBUTE TO UP TO 1 HOUR OF VERIFIABLE CPD, SO LONG AS YOU CAN DEMONSTRATE THAT THE CONTENT IS RELEVANT TO YOUR ROLE.

FIND OUT MORE ABOUT HOW THESE CHANGES AFFECT YOU AT ICAEW.COM/CPDCHANGES.

Today's presenter

Nia Bell, Communications & Partnerships Lead and Co-lead of the UK Chapter, PCAF

Partnership for Carbon Accounting Financials

Introduction to PCAF - how to account for GHG emissions related to financial activities

Agenda

INTRODUCTION TO PCAF

VALUE OF GHG ACCOUNTING FOR FINANCIAL INSTITUTIONS

THE PCAF STANDARD

THE PCAF APPROACH TO FINANCED EMISSION CALCULATIONS

Q&A

Poll

How familiar are you with PCAF Standard?

1. **Very familiar,** I have used the PCAF Standard in my work
2. **Somewhat familiar,** I am aware of the PCAF Standard
3. **New to me,** This is my first time learning about the PCAF Standard

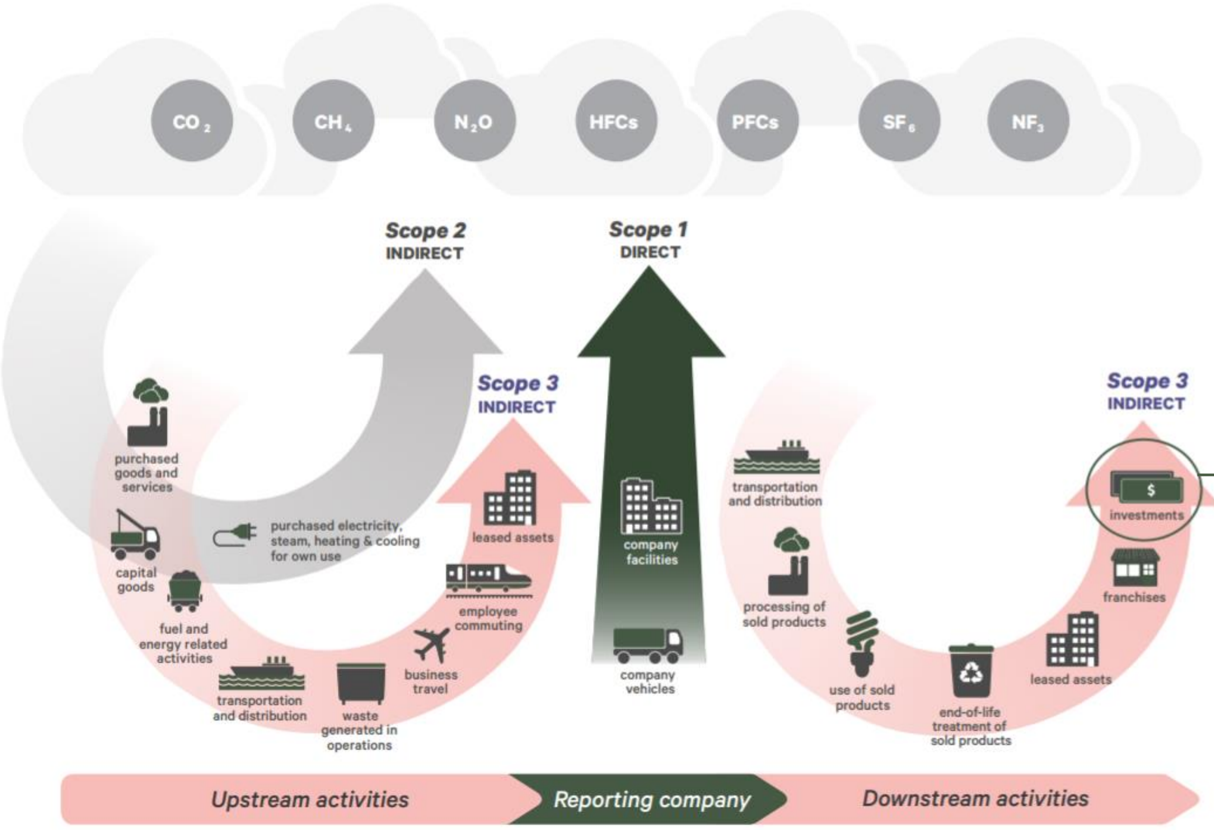
GHG emissions related to financial activities

Intro to GHG accounting for financial institutions

Greenhouse gas (GHG) accounting for financial institutions is the annual accounting and disclosure of **GHG emissions** associated with **financial activities** at a fixed point in time in line with financial accounting periods.

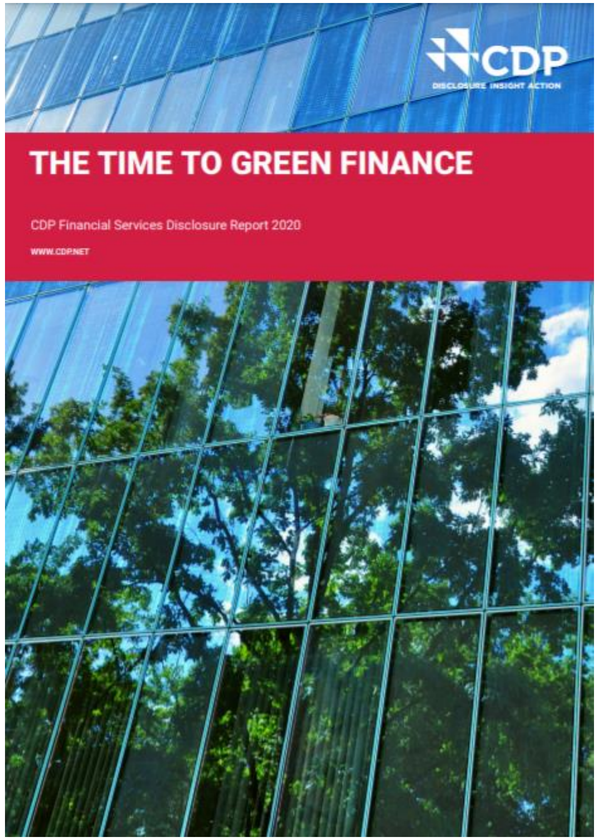
What gets measured gets managed

Financial institutions indirectly create a climate impact through their financial activities

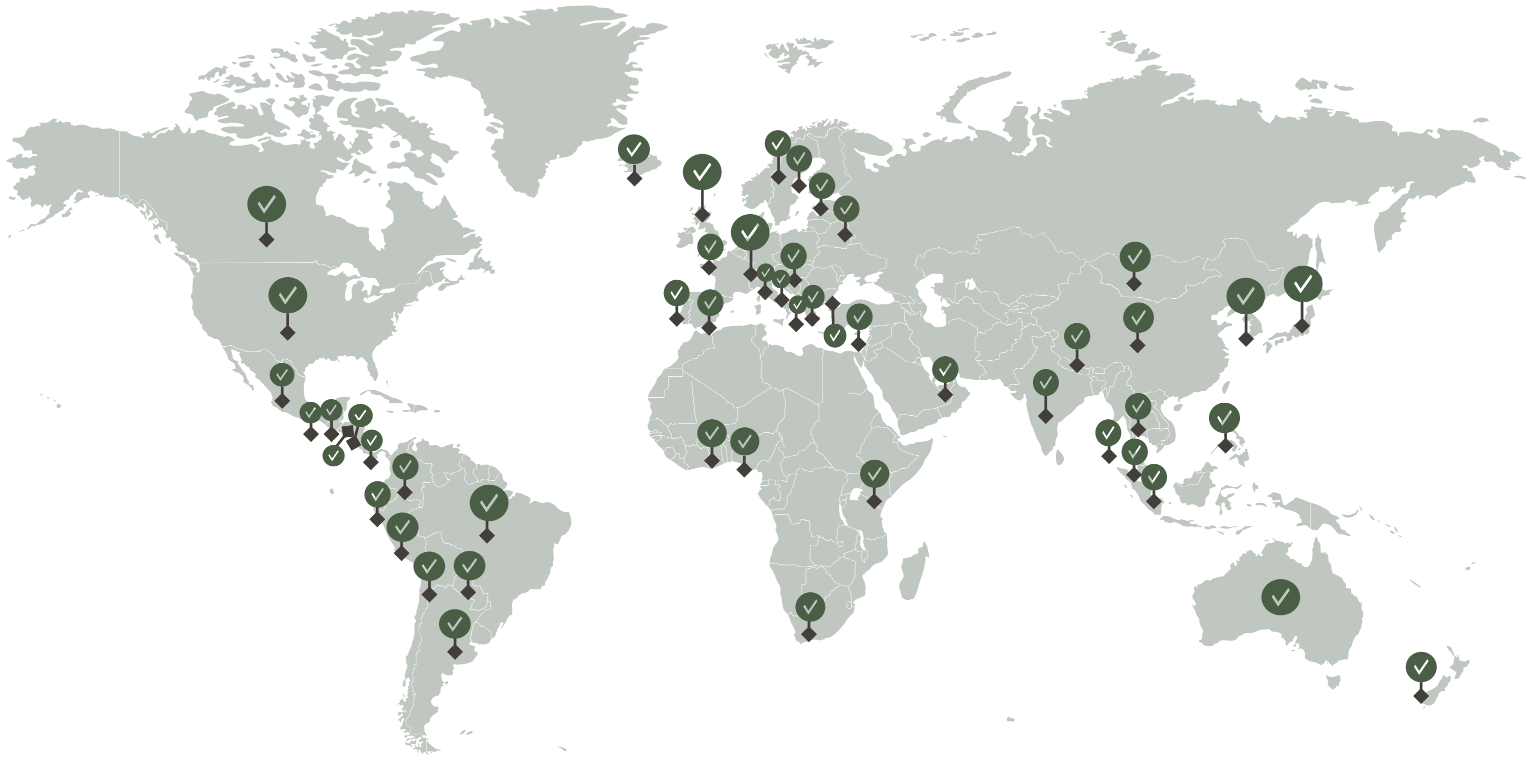


PCAF Partnership for Carbon Accounting Financials

Scope 3, Category 15 emissions are the largest component of the climate impact of a financial institution

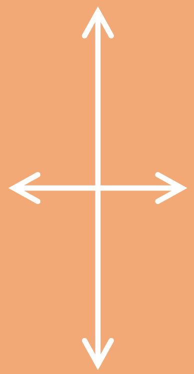


475 financial institutions in 74 countries are part of PCAF, 170 have disclosed (As of April 2024)



PCAF OBJECTIVES

Develop the Global GHG Accounting and Reporting Standard for the Financial Industry

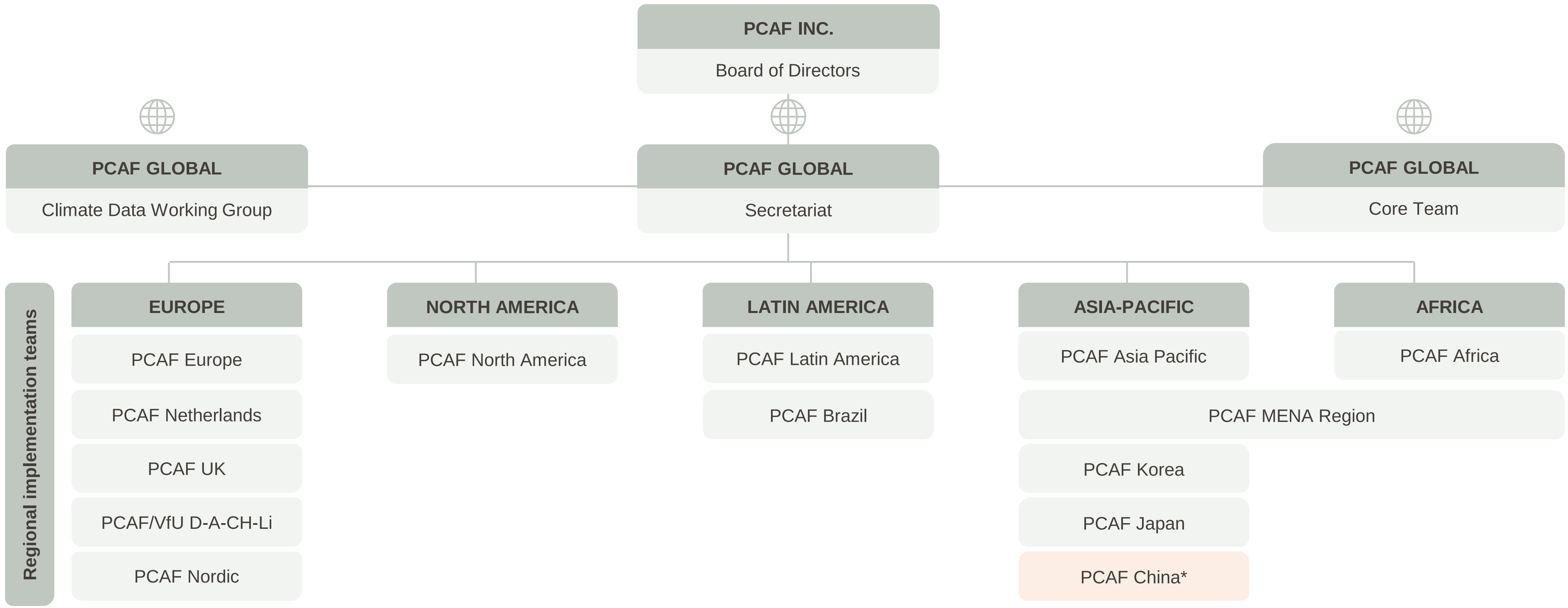


Increase number of financial institutions using the PCAF Standards, aim to disclose financed emissions of over 1,000 institutions globally by 2025

CHECK THE FULL LIST OF PCAF SIGNATORIES HERE

DOWNLOAD THE GLOBAL GHG ACCOUNTING AND REPORTING STANDARD HERE

PCAF drives implementation through regional and national collaborations



* Under consideration. Additional national chapters can be created if there is sufficient interest from signatories

PCAF works with various global partners and collaborators

All Global Net-Zero Alliances and Net-Zero Initiatives

- UN-convened Net-Zero Asset Owner Alliance — Global asset owners committed to decarbonising their investment portfolios and achieving net-zero emissions by 2050
- Launch — UN-convened Net-Zero Insurance Alliance
- UN-Convened, Industry-led Net-Zero Banking Alliance
- Paris Aligned Investment Initiative

Reporting, Target-Setting and Sector Alignment initiatives

- CDP — DISCLOSURE INSIGHT ACTION
- SCIENCE BASED TARGETS — DRIVING AMBITIOUS CORPORATE CLIMATE ACTION
- GREENHOUSE GAS PROTOCOL
- CRREM
- GRESB
- Joint Impact MODEL

Leading local Sustainable Finance networks and actors

- VfU
- kosif — Korea Sustainability Investing Forum
- ToC — MONGOLIAN SUSTAINABLE FINANCE ASSOCIATION
- GF60 — GREEN FINANCE FORUM OF 60 绿色金融60人论坛
- General Council for Islamic Banks and Financial Institutions — CIBAFI — المجلس العام للبنوك والمؤسسات المالية الإسلامية

Value of GHG accounting for financial institutions

Measuring and disclosing emissions associated with financial activity furthers climate-related business goals and aligns with other initiatives

Business Goal 1
Create transparency for stakeholders

Business Goal 2
Manage climate-related transitions risks

Business Goal 3
Develop climate-friendly financial products

Business Goal 4
Align financial flows with the Paris Agreement

MEASUREMENT OF EMISSIONS ASSOCIATED WITH FINANCIAL ACTIVITY

CDP DISCLOSURE INSIGHT ACTION

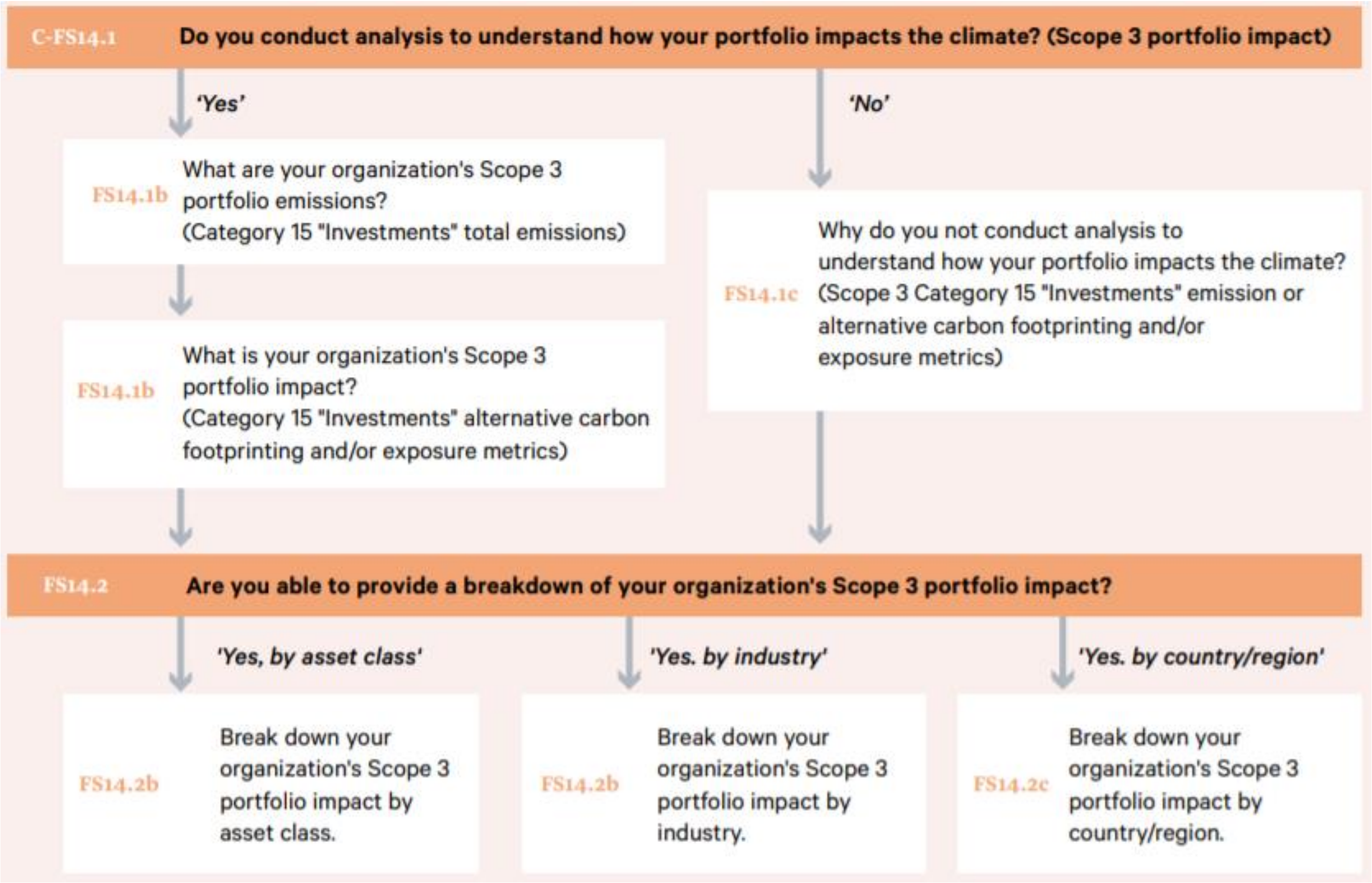
TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Financed emissions are an important metric in creating transparency for stakeholders

Business Goal 1
Create transparency for stakeholders

- CDP asks financial institutions to **disclose their financed emissions**, along with the breakdown of these emissions by **asset class, sector, and geography**
- The Global Standard provides the methodologies for calculating financed emissions



CDP
DISCLOSURE INSIGHT ACTION

Financed emissions are a key metric to understand climate-related transition risk as per the TCFD

Business Goal 2
Manage climate-related transitions risks

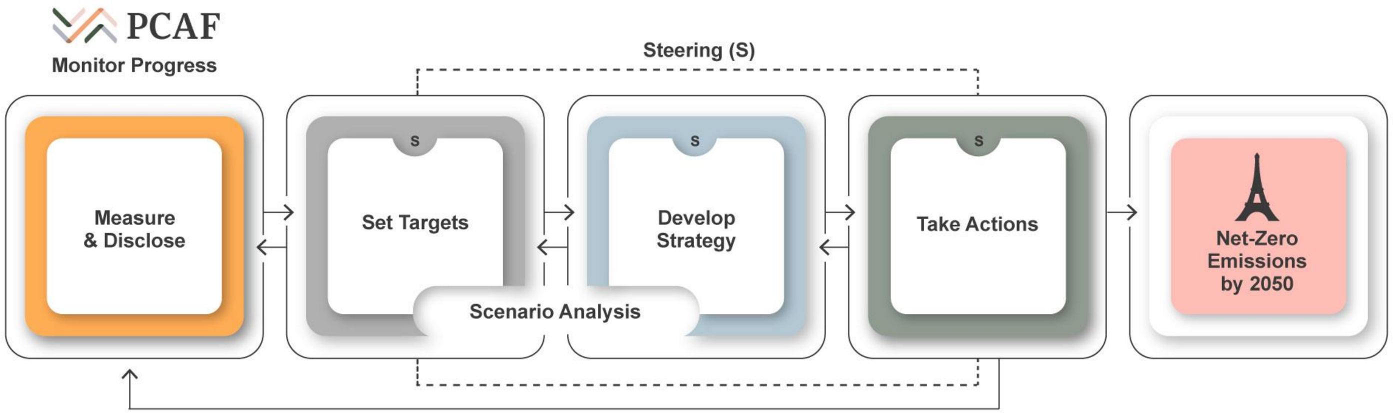
- One of the goals of the TCFD framework is **to measure and disclose the transition risks** posed to organizations by climate-related policies and regulations.
- The Global Standard directly supports this objective by providing methodologies to measure financed emissions **which are a key metric for financial institutions' transition risk**
- As a result of emissions assessments, financial institutions can **identify carbon-intensive hotspots** that could be subject to higher transition risk.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TCFD officially recommends that banks, asset owners and asset managers measure and disclose financed emissions in line with the PCAF Standard

Financed emissions inform climate strategies and actions to develop products that support the transition toward net-zero

Business Goal 3
Develop climate-friendly financial products



Triodos Bank

SPECIAL MORTGAGE TO IMPROVE THE ENERGY EFFICIENCY OF HOUSES

Triodos Bank developed a dedicated financial product with a lower interest to customers that renovate their homes and aim to improve energy efficiency (B, A, A+)

beneficial state bank

FUNDING AND AFFORDABLE FINANCING FOR CLEAN VEHICLES

The bank partnered with the State of California to provide grants and affordable financing to help income-qualified Californians purchase or lease a new or used hybrid or electric vehicle

BARCLAYS

GREEN LOAN TO FUND GREEN ENERGY AND SUSTAINABILITY PROJECTS

Barclays' SME clients can borrow up to £5 million to fund projects with positive climate impact or that help reduce climate impact. Including harnessing and storing solar and wind energy, or upgrading to eco-friendly machinery

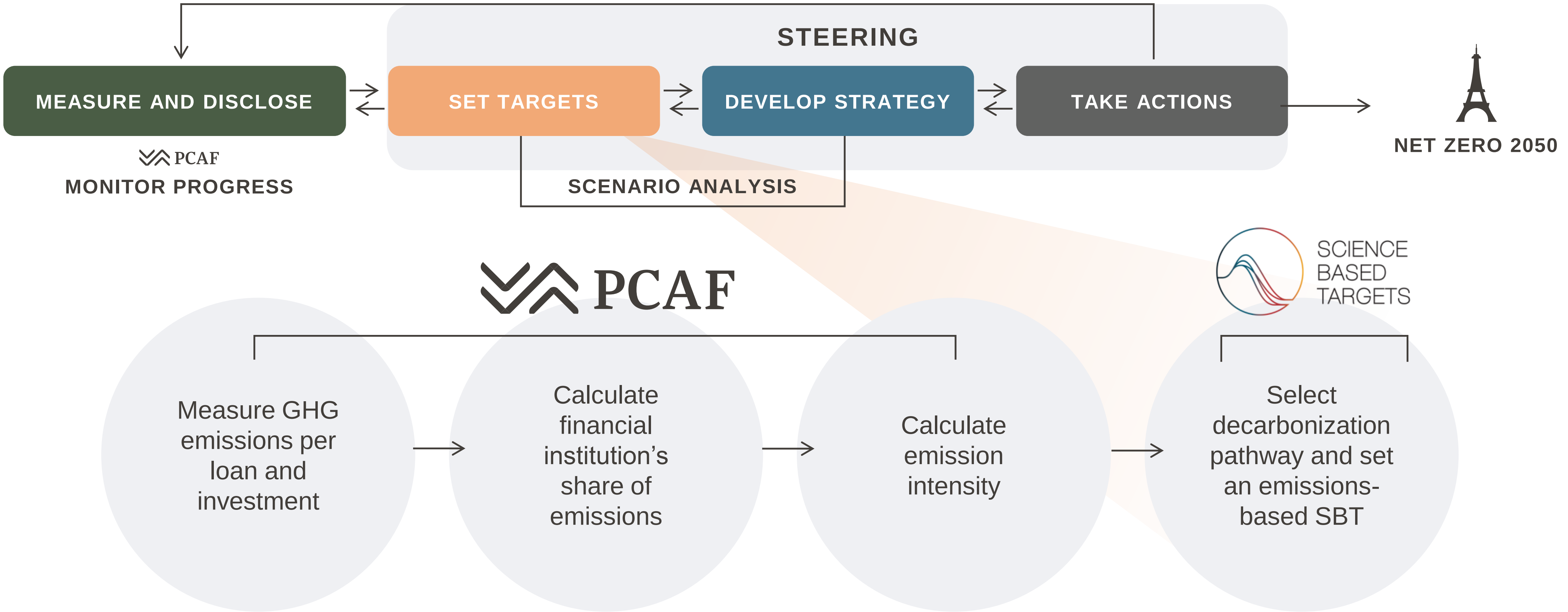
ABN·AMRO

COMMERCIAL REAL ESTATE TOOLS TO IMPROVE BUILDINGS ENERGY EFFICIENCY

ABN AMRO enables real estate clients increase the energy efficiency of the buildings and associated carbon emissions. Through its Sustainable Investment Tool, the bank assesses the assets and recommends improvement measures along with special financing offerings

Measuring financed emissions sets the baseline for science based targets using the Science Based Targets Initiative's (SBTi's) methodologies

Business Goal 4
Align financial flows with the Paris Agreement



The PCAF Standard

Since 2015, PCAF signatories have developed and tested GHG accounting methods, leading to a globally harmonized Standard

2011

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

2015

PCAF founded by Dutch financial institutions

2018

PCAF launched in North America

2019

PCAF launched globally

PCAF published 2 reports on GHG accounting methods

2020

PCAF launches Global GHG Accounting and Reporting Standard for the financial industry

The GLOBAL GHG ACCOUNTING & REPORTING Standard FOR THE FINANCIAL INDUSTRY

2022

400+ PCAF Signatories and the incorporation of PCAF as a non-profit organization

PCAF Partnership for Carbon Accounting Financials

2023

Completed first editions of parts A, B and C of the PCAF Standard covering financed emissions, facilitated emissions and insurance associated emissions respectively.

BUILT ON GHG PROTOCOL

"This standard has been 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."

The Standard consists of three parts for financial institutions to measure and report emissions from their financial activities

Part A – Financed Emissions

- Provides methodological guidance **to measure and disclose GHG emissions** associated with seven asset classes as well as guidance on emission removals. 2nd edition launched in 2022

Part B – Facilitated Emissions

- Provides methodological guidance for measuring and reporting the GHG emissions associated with **capital markets transactions**.
- Launched on 1st December 2023.

Part C – Insurance-Associated Emissions

- Provides methodological guidance for measuring and reporting the GHG emissions associated with **re/insurance underwriting for two segments**. 1st edition launched in 2022.
- **The two segments** are: 1) commercial lines, and 2) personal motor lines.

PCAF's 2024 priority areas for Standard Development

A longlist of areas of interest, based on a signatory survey, were prioritised by the Core team based on the following criteria:

Materiality of the category for financial sector	**Impact / ability to take action**
Demand for the methodology	**Complexity of developing method**

This process resulted in the selection of four **priority areas** for methodology development.

- **Transition finance** (including green finance, bonds, and avoided emissions)
- **Inventory fluctuation** (including EVIC)
- Additional **insurance products**
- **Securitized and structured products**

And four areas PCAF will be carrying out **exploratory work** to support future standard development cycles.

- Additional **consumer finance products**
- Additional **facilitated emissions products** including derivatives, hedge funds and others
- Embodied **carbon from real estate**
- **Municipal bonds / sub-sovereigns**

Standard development process as managed by the PCAF Core Team

PHASE 1. SELECT PRIORITY AREAS

Q4 2023

PHASE 2. DRAFT PCAF STANDARD

Q1-Q3 2024

PHASE 3. PUBLIC CONSULTATION

Q4 2024

PHASE 4. PREPARE FOR THE LAUNCH OF V.3 OF THE PCAF STANDARD

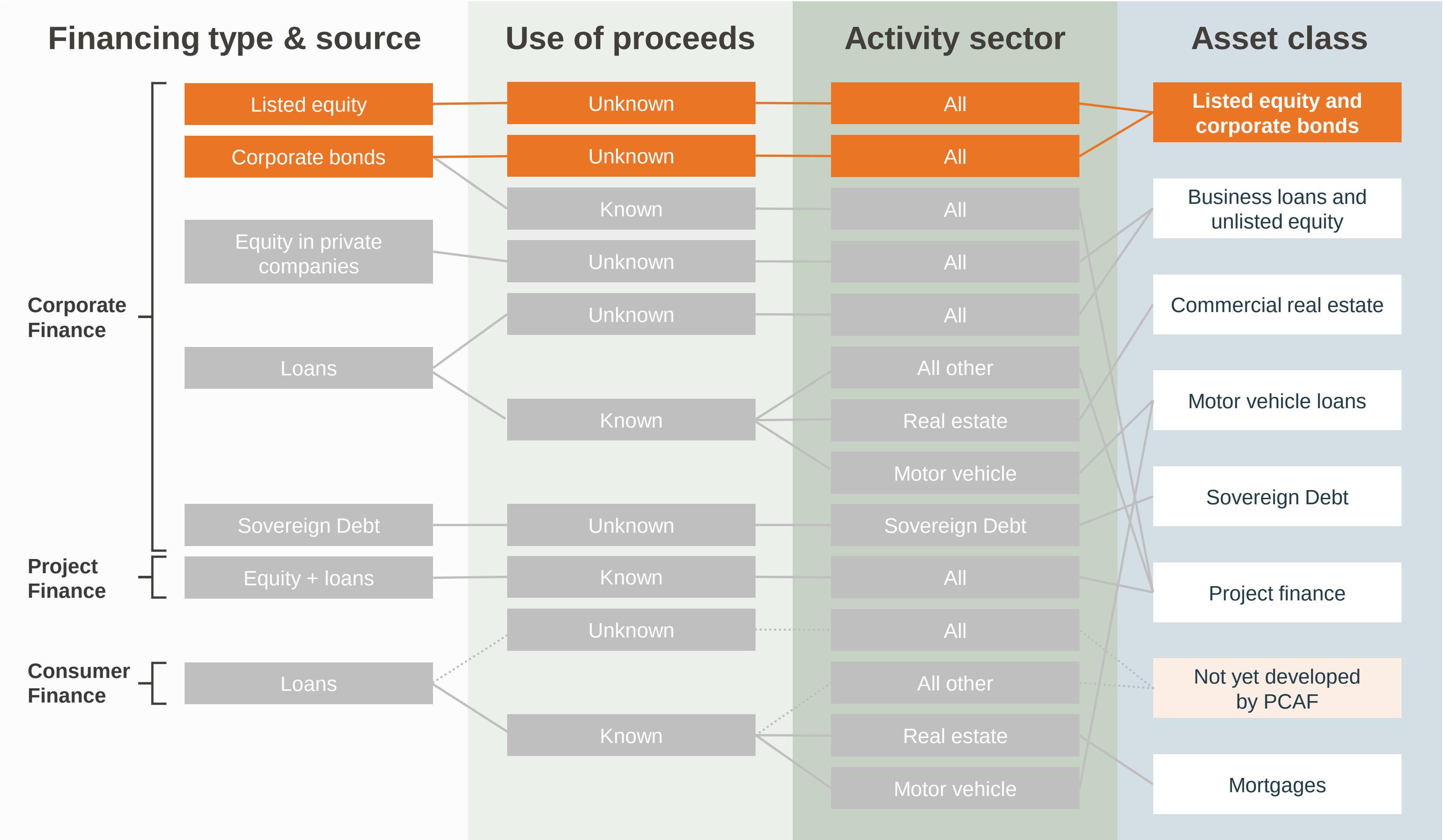
H1 2025

The PCAF approach to financed emission calculations

GHG Accounting for Seven Asset Classes

LISTED EQUITY AND CORPORATE BONDS	$\frac{\text{Outstanding amount}}{\text{EVIC or Total company equity + debt}}$ X Company emissions EVIC = enterprise value including cash
BUSINESS LOANS AND UNLISTED EQUITY	$\frac{\text{Outstanding amount}}{\text{EVIC or Total company equity + debt}}$ X Company emissions EVIC = enterprise value including cash
PROJECT FINANCE	$\frac{\text{Outstanding amount}}{\text{Total project equity + debt}}$ X Project emissions
COMMERCIAL REAL ESTATE	$\frac{\text{Outstanding amount}}{\text{Property value at origination}}$ X Building emissions
MORTGAGES	$\frac{\text{Outstanding amount}}{\text{Property value at origination}}$ X Building emissions
MOTOR VEHICLE LOANS	$\frac{\text{Outstanding amount}}{\text{Total value at origination}}$ X Vehicle emissions
SOVEREIGN DEBT	$\frac{\text{Exposure to Sovereign Bond (USD)}}{\text{PPP-adjusted GDP (int'l USD)}}$ X Sovereign emissions

Part A Financed Emissions provides guidance for choosing an asset class-specific approach to calculate financed emissions



FINANCING TYPE & SOURCE:

- "Listed equity"
- "Corporate bonds"

USE OF PROCEEDS:

- "Unknown"

ACTIVITY SECTOR:

- "All"

EXAMPLE:

- *Portco is a listed company in the US and uses the investment for general corporate purposes (e.g., not specified exactly where the money is going to)*

Listed Equity and Corporate Bonds: Coverage

What is covered?

- For **general corporate purposes** (i.e., *unknown use of proceeds*)
- **On the balance sheet** of the financial institution

LISTED EQUITY

Inclusions

- **Common stock** and **preferred stock**
- All **traded on the market**

Exclusions

- Equity investments in **private companies** → **Unlisted Equity**
- **Derivative financial products**
- **Short and long positions**
- **Special cases of underwriting**

→ **Under Development**

CORPORATE BONDS

Inclusions

- Listed corporate bonds to both **public** and **private companies**

Exclusions

- **Green Bonds** → **Project Finance**
- **Sovereign Bonds** → **Sovereign Debt**

Equation to calculate financed emissions for Listed Equity and Corporate Bonds

$$\textbf{FINANCED EMISSIONS} = \sum \text{Attribution factor}_c \times \text{Emissions}_c$$

(with c = borrower or investee company)

- The attribution factor is used to show the FI's share of the investee's emissions
- An investee is a general term and could represent a company, property, project etc. (asset class dependent)

$$\frac{\text{Outstanding amount}_c}{\text{Total book equity}_c + \text{Total book debt}_c}$$

or

$$\frac{\text{Outstanding amount}_c}{\text{Enterprise value including cash (EVIC)}}$$

1. Reported emissions$_c$

or

2. Physical activity-based emissions$_c$

or

3. Economic activity-based emissions$_c$

Hierarchy of preference

However, the attribution factor is different for listed equity and corporate bonds

$$\text{Financed emissions} = \sum_{c} \text{Attribution factor}_c \times \text{Company emissions}_c$$

For listed companies

The **actual outstanding amount** in listed equity

- **Listed equity**: value is based on market value (market price * number of shares)

$$\text{Attribution factor}_c = \frac{\text{Outstanding amount}_c}{\text{Enterprise value including cash}_c}$$

(With c = borrower or investee company)

EVIC (Enterprise Value Including Cash) is a sum of:

- the **company value** (the sum of market capitalisation of ordinary and preferred shares)
- Book value of total debt and minorities' interest (all debt as listed on the company's value sheet; bank excluded)
- Including cash (no deduction of cash).

For more information about EVIC, see page 52 onwards of Part A – Financed emissions

For bonds to private companies

The **actual outstanding amount** in corporate bonds

- **Bonds**: value is based on the book value of debt that the borrower owes to the lender

$$\text{Attribution factor}_c = \frac{\text{Outstanding amount}_c}{\text{Total equity} + \text{debt}_c}$$

(With c = borrower or investee company)

The **company value** is the sum of total company equity and debt*

- **Total equity:** assets – liabilities
- **Total debt:** current and long-term debt

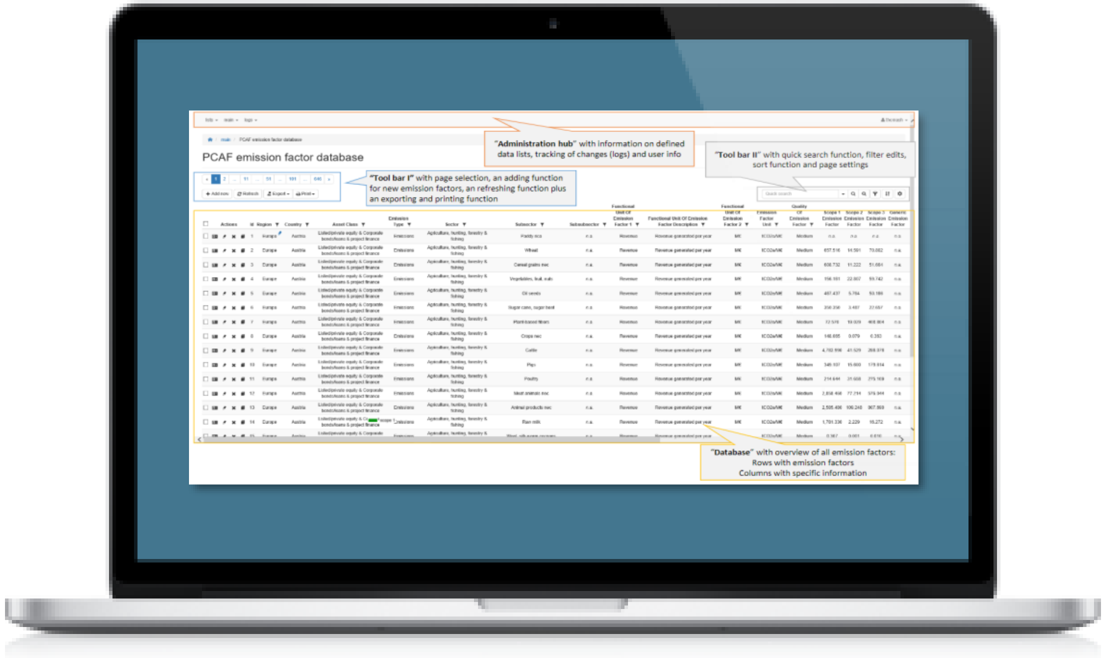
**see p. 52 of the Standard for exception*

PCAF provides three options to calculate financed emissions for Listed Equity and Corporate Bonds

Data quality	Options to estimate		When to use each option
Highest Score 1	Option 1: Reported emissions	1a	▪ Outstanding amount in the company and EVIC are known. ▪ **Verified emissions** of the company are available.
Score 2	Option 1: Reported emissions	1b	▪ Outstanding amount in the company and EVIC are known. ▪ **Unverified emissions** calculated by the company are available.
Score 2	Option 2: Physical activity-based emissions	2a	▪ Outstanding amount in the company and EVIC are known. ▪ Reported company emissions are not known. Emissions are calculated using primary physical activity data of the **company's energy consumption** and emission factors specific to that primary data. Relevant process emissions are added.
Score 3	Option 2: Physical activity-based emissions	2b	▪ Outstanding amount in the company and EVIC are known. ▪ Reported company emissions are not known. Emissions are calculated using primary physical activity data of the **company's production** and emission factors specific to that primary data.
Score 4	Option 3: Economic activity-based emissions	3a	▪ Outstanding amount in the company, EVIC, and the **company's revenue** are known. ▪ Emission factors for the sector per unit of revenue are known (e.g., tCO_2e per euro or dollar of revenue earned in a sector).
Score 5	Option 3: Economic activity-based emissions	3b	▪ Outstanding amount in the company is known. ▪ Emission factors for the sector per unit of asset (e.g., tCO_2e per euro or dollar of asset in a sector) are known.
Score 5 Lowest	Option 3: Economic activity-based emissions	3c	▪ Outstanding amount in the company is known. ▪ Emission factors for the sector per unit of revenue (e.g., tCO_2e per euro or dollar of revenue earned in a sector) and **asset turnover ratios** for the sector are known.

Hierarchy of preference

PCAF’s database enables financial institutions to start with GHG accounting at asset class level



- Directly based on the PCAF methods to kick-start the assessment of emissions associated with financial activities
- Including emission factors for the Insurance Associated Emission Standard Lines of Business
- Hotspots the most emissions intensive emissions attributed to bank, investor or re/insurer
- Link to register: https://db.carbonaccountingfinancials.com/register.php

Available for PCAF signatories

Set of publicly available emission factors across geographies and asset classes

Transparent

Includes data quality score card

The PCAF Academy strives to deliver international consistency, comparability and quality of financed emission accounting and disclosure

PCAF ACADEMY

The PCAF Academy aims to elevate the quality of financed emission accounting, driving standardized interpretation and application of the PCAF Standards, and enabling participants to take independent steps in their decarbonization journeys

What is the PCAF Academy?

The PCAF Academy is a **self-paced online learning program** providing multiple modules, examinations and more

The Academy also provides an optional official "**PCAF accreditation program**" – allowing individual learners to become PCAF certified

- **Online course self-paced**
- **9 learning modules**
- **Examinations – in-module and final exam**
- **Helpdesk[1]**
- **Community & discussion forum[1]**

Who is the PCAF Academy for?

Primarily aimed at signatories - five individual access licenses to the PCAF Academy per signatory[2]

PCAF Accredited Partner Program

PCAF has developed an accredited partner program to provide firms with access to:

- The **PCAF Database** for use with PCAF Signatories,
- **Technical Assistance** from PCAF experts,
- The **PCAF Academy**, a self-paced online learning platform,
- And **other** benefits.

This partner program is open to **data providers**, **software providers** and **consultants/advisors** who support financial institutions in the reporting and disclosure of GHG emissions associated with financial activity.

To learn more about the PCAF Partner Program, please reach out to info@carbonaccounting.com for more information.

Current partners include:

PERSEFONI

S&P Global

Watershed

Upcoming briefing webinar for consultants:

Wed May 15, 4 pm BST

30 minutes session covering benefits, costs and timelines.

Webinar sign-up link: here

Q&A

Thank you

Speaker information: Nia Bell,
Communications & Partnerships Lead and Co-lead of the UK Chapter, PCAF Secretariat
nibell@guidehouse.com

Annex

Many regulations and legislations already require GHG accounting and reporting (1/2)

REGULATIONS		REPORTING REQUIREMENT SCOPE 1	SCOPE 2	SCOPE 3	VOLUNTARY/ MANDATORY
EU Taxonomy	EU Taxonomy Regulation	✓	✓	✓	**Mandatory** for public interest entities (PIEs)[1] with 500+ employees
European Commission	Sustainable Finance Disclosure Regulation (SFDR)	✓	✓	✓	**Mandatory** for all FMPs and Pas in the EU with 500+ employees
CSRD	Corporate Sustainability Reporting Directive (CSRD)	✓	✓	✓	**Mandatory** for Companies meeting two of the conditions: €50 million in net turnover, €25 million in assets, 250 or more employees Non-EU companies with turnover of above €150 million in the EU
European Commission	Capital Requirements Regulation (CRR) & Capital Requirements Directive (CRD	✓	✓	✓	**Mandatory** for large re/insurance companies with issued securities on an EU market
CSDDD	Corporate Sustainability Due Diligence (CSDDD)	✓	✓	✓	**Mandatory** for EU companies with 1000 or more employees & turnover over 450 million EUR and Non-EU companies operating in the EU with more than EUR 450 million net turnover in the EU[2]

1) Public interest entities (PIEs), i.e. entities established in the EU whose securities are admitted to trading on an EU regulated market, as well as licensed credit institutions and insurance companies having their registered office in the EU and entities designated by a Member State as such

2) The CSDDD covers only the upstream, not the downstream part of a financial institution's chain of activities. Option, that additional due diligence requirements tailored to the financial sector can be added in the future.

Many regulations and legislations already require GHG accounting and reporting (2/2)

REGULATIONS	REPORTING REQUIREMENT SCOPE 1	SCOPE 2	SCOPE 3	VOLUNTARY/ MANDATORY
Securities and Exchange Commission (SEC) Proposed Rule on the Enhancement and Standardization of Climate-Related Disclosures for Investors	✓	✓		**Mandatory** for domestic and foreign registrants in the US
Task Force on Climate-related Financial Disclosures (TCFD)	✓	✓	✓	**Voluntary** but part of regulatory framework in multiple countries
International Sustainability Standards Board on Climate Disclosure	✓	✓	✓	**Voluntary**

PCAF enables financial institutions to comply with these regulations and legislations by providing a standardized methodology to measure and report financed emissions.

[1] Only required if scope 3 emissions are either material to the company or if the company has set a scope 3 emission targets