PCAF Briefing for Asset Managers

PCAF

Partnership for Carbon Accounting Financials

As asset owners increasingly seek to decouple their capital from high-emission investments and steer towards Paris-aligned investments, the demand for asset managers to improve their climate performance and disclosure has risen. Clients are also increasingly aware of the climate-related risks endemic to the global transition to a low-carbon economy and are asking asset managers to reduce climate risk exposure in their managed portfolios.

The Partnership for Carbon Accounting Financials (PCAF) supports asset managers in adapting to this rapidly changing landscape with the greenhouse gas (GHG) accounting methodologies presented in the Global GHG Accounting and Reporting Standard for the Financial Industry.

PCAF's membership of over 100 financial institutions holding over $21 trillion in total assets and the recent launch of the Net Zero Asset Managers Initiative reflect the growing momentum of decarbonization efforts in asset management.

PCAF enables financial institutions to assess and disclose GHG emissions of loans and investments.

What is PCAF?

PCAF is a global, industry-led initiative that enables financial institutions (FIs) to measure and disclose the greenhouse gas (GHG) emissions of their loans and investments through GHG accounting. Measuring financed emissions is crucial in providing an understanding of climate risks to a portfolio and the GHG emissions (or climate impact) associated with loans and investments. This understanding helps FIs to better identify and manage risks, navigate emissions reduction goals, act to reduce their portfolio climate impact, and disclose progress. This in turn triggers internal discussions and engagements with stakeholders to identify concrete actions that help lower financed emissions.

PCAF's global network of FIs collaborate to develop and implement a universal, robust and harmonized approach to measuring and disclosing financed emissions, which resulted in the Global GHG Accounting and Reporting Standard for the Financial Industry. The Standard is written primarily for FIs that wish to measure and disclose the GHG emissions associated with their loans and investments, including asset managers as well as asset owners, banks and insurance companies.

Asset managers can use the Standard to measure the absolute financed emissions of their portfolios, a versatile metric that can be used to set and monitor emission-based targets, improve climate reporting and identify and manage climate-related transition risks and opportunities (Figure 1).

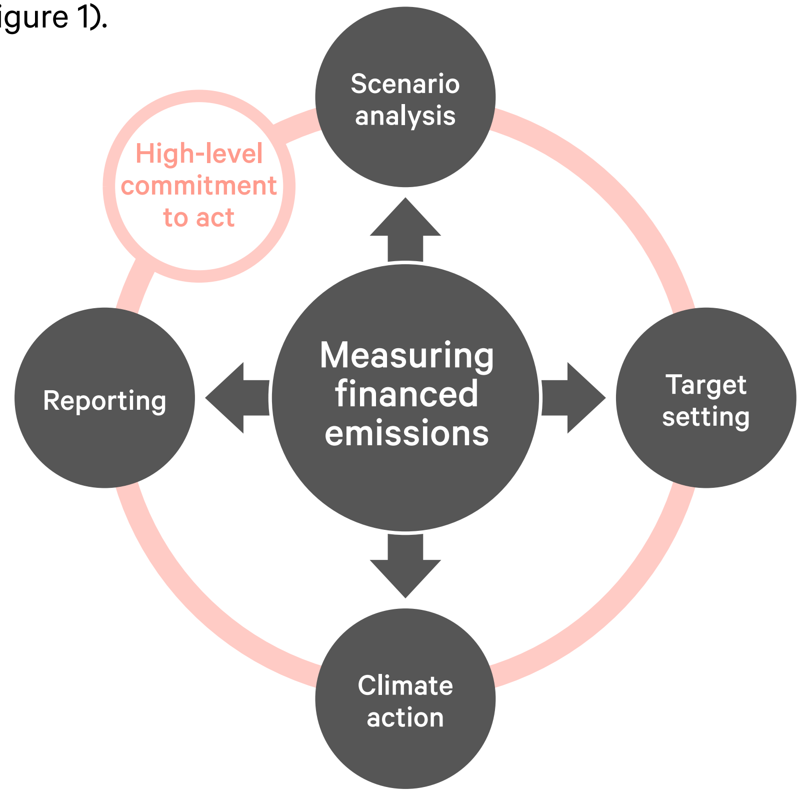

Figure 1. Measuring financed emissions as the foundation for other initiatives

What distinguishes PCAF from other climate initiatives and where does PCAF fit in the ecosystem of climate initiatives?

PCAF differentiates itself as the only initiative that provides a global, standardized, robust methodology to measure and disclose the financed emissions of a portfolio. The methodology in the Standard is built on and backed by the GHG Protocol, the world's leading standard for GHG accounting.

The Standard has earned the "Built on GHG Protocol" mark, which provides assurance and credibility of the GHG accounting methods in the Standard. This gives it the visibility and recognition as the definitive global standard for GHG accounting for financials.

PCAF is a collaborative initiative and naturally builds synergies with other key climate initiatives because measuring financed emissions is a fundamental step towards several milestones in an FI's climate journey (see Figure 3). Much of the value of financed emissions as a metric lies in its applicability as an input for several other climate initiatives. FIs can use financed emissions to feed into climate actions such as performing scenario analysis and disclosing risk in line with TCFD, setting science-based targets with the Science-Based Targets initiative, tracking progress of net zero targets from the Net Zero Asset Owner Alliance and the Net Zero Asset Manager Initiative.

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.

Who is involved in PCAF?

PCAF is a global partnership by and for financial institutions of all types, sizes and geographies. Over 100 financial institutions have already joined the initiative. PCAF is led by a Steering Committee consisting of ABN AMRO, ASN Bank, Amalgamated Bank, Global Alliance for Banking on Values (GABV), Triodos Bank, Morgan Stanley, NMB Bank, and the UN-convened Net-Zero Asset Owner Alliance. Visit the PCAF website to see the full list of PCAF participants.

PCAF partners and collaborates with key climate finance stakeholders to ensure efforts are aligned:

UN-convened Net-Zero Asset Owner Alliance	The **UN-convened Net-Zero Asset Owner Alliance (AoA)** is represented on the PCAF Steering Committee. Both initiatives collaborate to ensure alignment of PCAF GHG accounting methods with AoA's target setting protocol.	SCIENCE BASED TARGETS DRIVING AMBITIOUS CORPORATE CLIMATE ACTION	The **Science-Based Targets** initiative's framework for financial institutions recommends using PCAF to measure financed emissions when applying the Sectoral Decarbonization Approach.
TCFD	The PCAF Standard supports the **TCFD** framework by providing harmonized approaches to measure financed emissions, a starting point to identify climate-related transition risks.	CDP DISCLOSURE INSIGHT ACTION	**CDP** lists PCAF in its questionnaire for financial services, and awards points to disclosers who indicate that they are a PCAF member and measure financed emissions.

Figure 2. Asset classes covered by the GHG Accounting and Reporting Standard

How does the PCAF Standard prescribe calculation of financed emissions?

The methodologies in the Standard currently cover six asset classes (Figure 2). The calculation of financed emissions for each of these asset classes is determined by applying the same general principle of attribution: the FI's share of emissions will be proportional to its exposure to the investee's total (company or project) value. Each asset class' unique variant of this principle is based on the type of financing provided to the investee or borrower and what is known about the flow of money—the "follow the money" principle. Figure 5-1 of the Global GHG Accounting and Reporting Standard for the Financial Industry provides guidance for choosing the appropriate approach to calculate financed emissions based on these factors.

What are the benefits of joining PCAF?

Joining PCAF unlocks access to a rich and vast network of climate leaders in the financial industry collaborating to improve GHG accounting methodologies. In addition, it provides a closer link to SBTi-FIs, UNEP-FI's PRI & PRB, the UN-Convened Net-Zero Asset Owners Alliance, TCFD and CDP. Members also gain access to PCAF's emission factor database and are provided with technical support by the PCAF Secretariat.

Why join PCAF?

Transparency. Interact with data providers and clients to understand data quality and approaches used to manage stakeholders that increasingly demand transparency.

Harmonization. Measure and disclose in a consistent manner to have a better understanding of portfolios' climate impacts and climate risks.

Groundwork. Prepare for regulation. Manage risks, steer on emission reduction goals and take actions based on transparent and harmonized emissions accounting.

How can investors join?

PCAF is an open-source initiative and participation is free of charge. To join PCAF, financial institutions must submit an official commitment letter in which they pledge to measure and disclose the financed emissions of at least part of their investment portfolio using the PCAF Standard within three years of signing.

Learn More and Connect

Visit **carbonaccountingfinancials.com**
and send all inquiries to the PCAF Secretariat
at **info@carbonaccountingfinancials.com**

Existing collaborative climate initiatives supporting FIs on climate actions

as of January 1, 2021

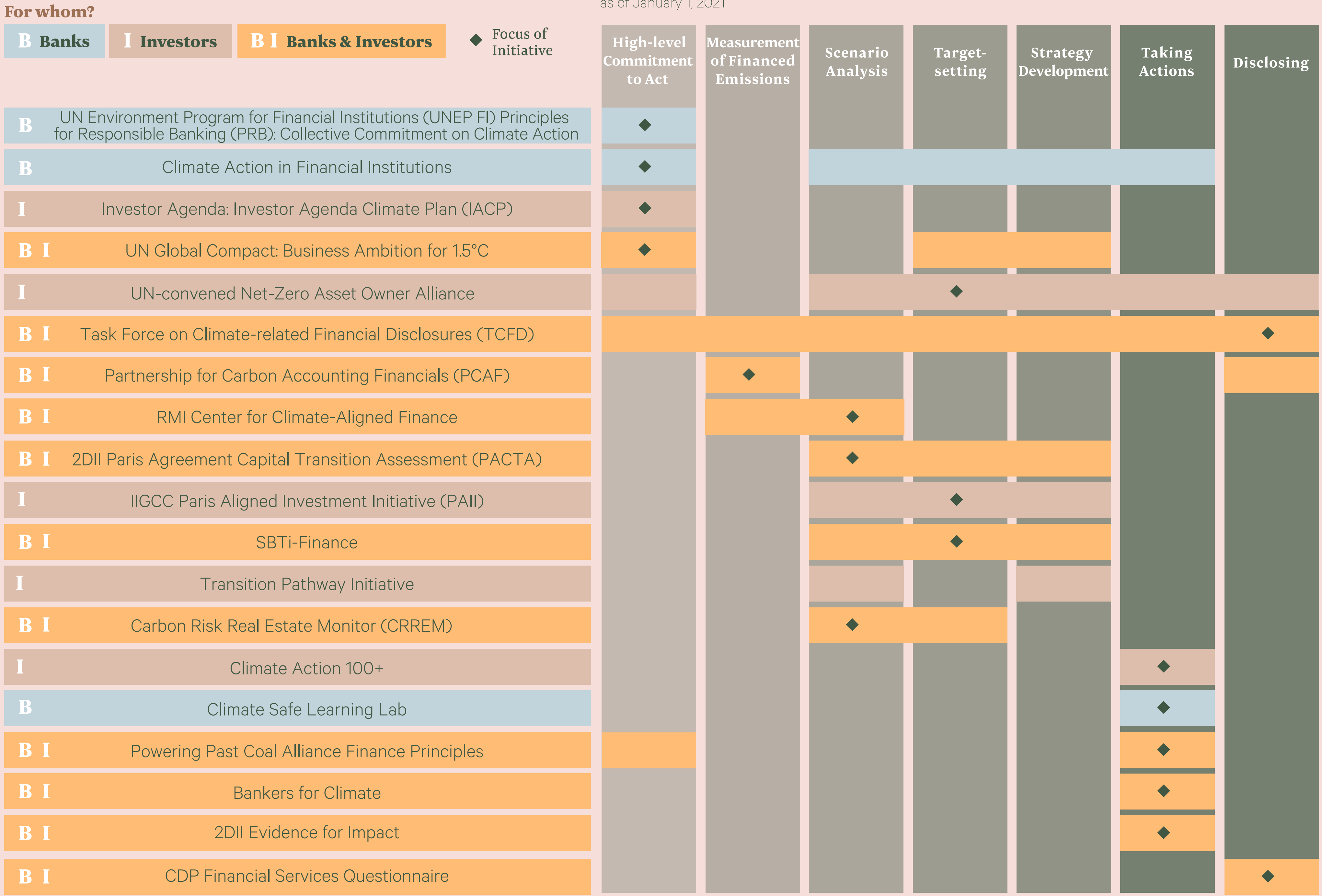

Figure 3. Cluster of climate initiatives

PCAF

Partnership for
Carbon Accounting
Financials

The global, industry-led initiative
to measure and disclose the greenhouse gas emissions
financed by loans and investments.

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Download the Standard at
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