

Facilitated Emissions

The GLOBAL GHG
ACCOUNTING
& REPORTING **Standard** / **PART B**

EXECUTIVE SUMMARY



PCAF

Partnership for
Carbon Accounting
Financials

First Version
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Introduction

The Partnership for Carbon Accounting Financials (PCAF) is an industry-led initiative that helps financial institutions assess and disclose their indirect greenhouse gas (GHG) emissions related to their financial activities (Scope 3 emissions classified as category 15). GHG accounting refers to the processes required to consistently measure and report the amount of GHGs generated, avoided, or removed by an entity, allowing it to track and report these emissions over time. It enables financial institutions to disclose these emissions at a fixed point in time and in line with financial accounting periods.

Until now, there has not been a globally accepted standard for measuring and reporting emissions associated with capital market activities. This new Standard constitutes PCAF (2023) The Global GHG Accounting and Reporting Standard Part B: Facilitated Emissions for the Financial Industry. As such, these Standards supplement the requirements of the GHG Protocol 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard'.

This document is the first version of the Facilitated Emissions Standard. It provides detailed methodological guidance for the measurement and disclosure of GHG emissions associated with capital market transactions. It is anticipated that the Facilitated Emissions Standard will be reviewed again once the revised GHG Protocol Corporate Standards have been published. This will allow experiences of implementing the Standard and expected updates to the GHG Protocol Corporate Standards to be incorporated.

The Facilitated Emissions Standard provides detailed guidance to calculate the facilitated emissions resulting from capital market activities. By following the methodologies, financial institutions can measure GHG emissions for each segment and produce disclosures that are consistent, comparable, reliable, and clear.

Limited data is often the main challenge in calculating facilitated emissions; however, data limitations should not deter financial institutions from starting their GHG accounting journeys. The Facilitated Emissions Standard provides guidance on data quality scoring per segment, facilitating data transparency and encouraging improvements to data quality in the medium and long term.

This Facilitated Emissions Standard also provides recommendations and requirements for reporting. Any requirements not fulfilled must be accompanied by an explanation.

This Facilitated Emissions Standard equips the financial industry with standardized, robust methods to measure and disclose facilitated emissions.

Formulae to calculate facilitated emissions

$$\text{Facilitated emissions} = \sum_c \frac{\text{Facilitated amount}_c}{\text{Company value}} \times \text{Weighting factor} \times \text{Annual emissions}_c$$

(Facilitated amount = Total raised amount × League table credit)
c = The issuing company

For listed companies:

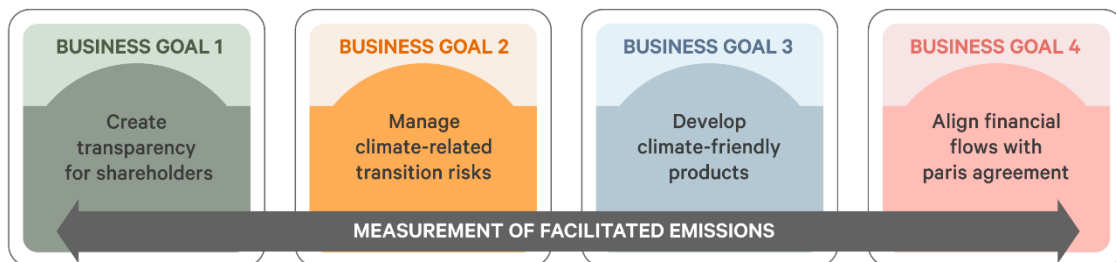
$$\text{Attribution factor}_c = \frac{\text{Facilitated amount}_c}{\text{Enterprise Value Including Cash (EVIC)}_c}$$

For unlisted companies:

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

Annual emissions	Attribution factor	Weighting factor
<p>What is the period over which the facilitation activity is captured?</p> <ul style="list-style-type: none"> Given the temporary association with transactions, capital market facilitations are treated differently than lending and investing. The association with the capital market transaction shall be accounted for in the year the facilitation occurs, using the reported or estimated annual emissions of the issuer in that year. All the transactions during the year are then aggregated over that one year to calculate the total facilitated emissions. 	<p>How are the emissions allocated between the different facilitators of an issuance</p> <ul style="list-style-type: none"> Given that there is typically more than one facilitator in a transaction, it is important to split the responsibilities between the facilitators in a consistent manner. As a first preference, the specific volume facilitated by the individual financial institution shall be used to determine what proportion of the facilitation each facilitator takes responsibility for. If not available, league table credit shall be used. The company value indicator is dependent on whether a company is listed or unlisted. 	<p>How is the responsibility of a facilitator for the issuer’s emissions valued?</p> <ul style="list-style-type: none"> The role that a facilitator plays in helping a company to issue capital market instruments to investors (i.e., facilitated transactions) is not directly equivalent with the provision of capital by a financial institution when it uses its balance sheet to extend loans and equity (i.e., financed emissions) Based on the Basel Committee on Banking Supervision’s Basel Framework on the systemic importance of key activities that banks undertake, a weighting of 33% is applied to the emissions of the issuer.

GHG accounting can help financial institutions meet multiple business goals.



Acknowledgements

In September 2019, the Partnership for Carbon Accounting Financials (PCAF) was launched globally to harmonize greenhouse gas (GHG) accounting methods and to enable financial institutions to consistently measure and disclose the GHG emissions associated with financial activities. In 2020, the first version of The Global GHG Accounting and Reporting Standard for the Financial Industry (the 'Financed Emissions Standard') was launched.

As an industry-led partnership, PCAF is governed by a Board of Directors of which the 2023 members are ABN AMRO, Amalgamated Bank, the Global Alliance for Banking on Values, Morgan Stanley, NMB Bank, and Nordea. At the time of publishing this document, more than 431 financial institutions, including banks, investors, asset managers, re/insurers, participated in PCAF.¹

A PCAF working group was initiated in early 2021 to co-create a separate Global GHG Accounting and Reporting Standard for facilitated emissions, particularly those associated with services provided by financial institutions to support the issuance of capital market instruments. This Facilitated Emissions Standard is Part B of the overall Global GHG Accounting and Reporting Standard for the Financial Industry (the Standard).

The PCAF Secretariat facilitated the Working Group's activities by moderating the technical discussions, reviewing the content, and compiling and editing this document. The PCAF Secretariat is operated by Guidehouse, a global consultancy firm specializing in energy, sustainability, risk, and compliance for the financial industry.

The Working Group first published a discussion paper in November 2021, which looked at key design choices in developing a methodology for the accounting of facilitated emissions associated with the arranging of capital market issuances (when the facilitation activity should be captured; how the responsibility should be split between the facilitators; and allocating emissions), as well as proposed options. The Working Group gathered feedback from both the public consultation held at the end of 2021 and from additional targeted discussions the Working Group held with third-party experts. However, there was one open question that the Working Group required specific feedback on: what portion of the capital market issuance is the responsibility of the facilitator? In October 2022, the Working Group published a public consultation paper to determine the percentage weighting of GHG emissions to facilitators. Throughout the development of this Facilitated Emissions Standard, PCAF has also engaged with stakeholders to solicit feedback and discuss PCAF methodological approaches and considered their comments and suggestions. These points have been considered and appropriately incorporated in this first version of The Global GHG Accounting and Reporting Standard Part B: Facilitated Emissions.

¹ The full list of PCAF participants can be found at: <https://carbonaccountingfinancials.com/financial-institutions-takingaction#overview-of-institutions>

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