



# New PCAF methods and guidance

**Public consultation launch**

December 11<sup>th</sup>, 2024



# Agenda



**OPENING REMARKS**



**THE IMPORTANCE OF THIS CONSULTATION FOR THE FINANCIAL INDUSTRY**



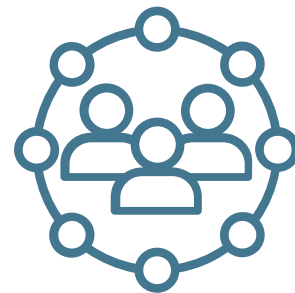
**THE NEW METHODS AND GUIDANCE FOR PUBLIC CONSULTATION**



**LOGISTICS OF THE CONSULTATION**



**Q&A**



**Opening remarks**

# Today's presenters



**Caspar Noach**

Technical Director

PCAF



**Hetal Patel**

PCAF Core Team Chair

Phoenix Group



**Madalena Martins**

Standard Development  
Coordinator

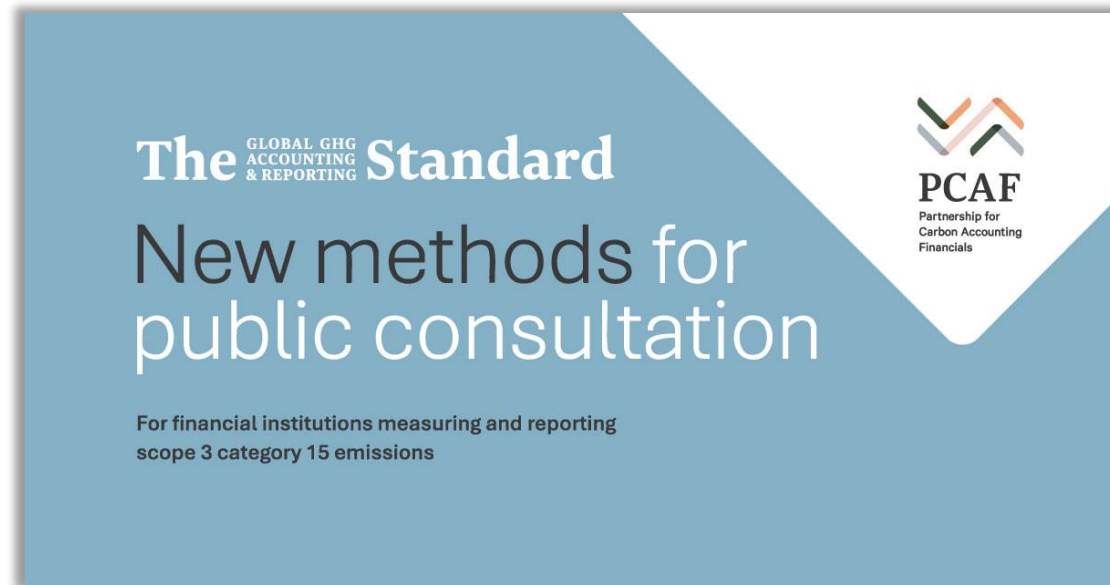
PCAF



**The importance of  
this consultation  
for the financial  
industry**

# Why are these methods important for the financial industry?

- We are excited to share an important chapter in PCAF's mission, the **Public Consultation for 2024-2025**.
- It is PCAF's goal to address the complex, evolving needs of the financial industry through practical, industry-led methodologies that enable financial institutions to take meaningful and measurable steps to a **lower carbon economy**.
- These proposed methodologies reflect deep engagement, technical precision and above all else – a **commitment to continuously improve industry standards**.



# The PCAF Standard development cycle

- The Standard development cycle began in September 2023, when the PCAF Board of Directors and Secretariat reconvened the PCAF **Global Core Team**, a group of individual representatives of PCAF signatories who govern the PCAF Standard. The Core Team underwent a prioritization process to determine the areas to develop for this standard development cycle.
- The individual guidance and methods were drafted by Working Groups, which were comprised of over 100 industry experts from our signatory base who contributed their expertise. The Working Groups underwent a **rigorous drafting and review process** throughout 2024 to deliver the guidance and methods presented in this consultation document. The drafting and review process was overseen by the Core Team.
- We have completed Phase 2 of the Standard development cycle and **have entered Phase 3**. Phase 3 will end at the beginning of March 2025 and Phase 4 will commence. V3 of the Standard is expected to launch in summer/fall 2025.



# The new methods counted on the global support of PCAF signatories

The methods presented in this consultation were developed by **industry-led working groups** made up of PCAF signatories and facilitated by the **PCAF Core Team** over eight months since the start of 2024.

Individuals who work at the following institutions make up the Core Team:



Morgan Stanley



PIMCO

The working groups had participants from all over the globe, where participants supported the development of the methods.







**The new methods  
and guidance**

# The prioritization process to determine the areas of development

The Core Team underwent a prioritization process to determine the areas to develop for this standard development cycle. The process scored the prioritization criteria of materiality, demand of signatories and the market, complexity, and impact to determine the areas in which to begin development.

**The prioritization criteria, all of which were weighted equally:**

**Materiality** E.g., Asset volume, use case applicability, emission volume, significance

**Impact** E.g., Availability to drive change

**Demand** E.g., Voluntary reporting vs. (regulatory or framework) requirement, indicative signatory demand

**Complexity** E.g., Level of complexity or simplicity to develop method, data availability

# The new guidance and methods for Part A of the PCAF Standard

As part of the consultation process, PCAF presents **two documents**.

- The first introduces a combination of **new methods** and **guidance** for measuring financed emissions under Part A of the Global GHG Accounting and Reporting Standard.

## Use of Proceeds Accounting



## Sub-sovereign Debt



## Securitizations and Structured Products



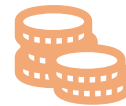
## Financed Avoided Emissions and Forward-looking Metrics



## Inventory Fluctuations



## Undrawn Loan Commitments



# The new methods for Part C of the PCAF Standard

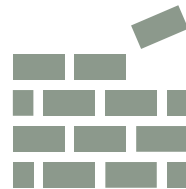
As part of the consultation process, PCAF presents **two documents**.

- The second document presents methods for **two new lines of business** under Part C.

## Treaty Reinsurance



## Project Insurance



# The new methods & guidance for Part A of the PCAF Standard

## Use of Proceeds Accounting



- Use of proceeds accounting allows FIs to account for the **specific assets** being financed, allowing the money to be followed as far as possible.
- The term **UoP structure** encompasses structures ranging from equity funds, debt funds and special purpose vehicles to labeled bonds and labeled loans. The assets underlying a UoP structure can belong to any other asset class.

## Financed Avoided Emissions and Forward-looking Metrics



- This guidance document is currently applicable for **financed emissions** and across asset classes.
  - Avoided emissions: **expands upon prior guidance** in the PCAF Standard, providing more detailed guidelines on reporting avoided emissions. Specifically expands avoided emissions reporting to all asset classes.
  - Forward-looking emissions metrics: PCAF acknowledges new forward-looking metrics are being created and proposes **high-level reporting guidelines** should FIs choose to disclose them.

# The new methods & guidance for Part A of the PCAF Standard

## Inventory Fluctuations



- Financed emissions are sensitive to several variables, and volatility in these variables can cause large changes in the financed emissions metric over time. PCAF explored an industry-wide approach to **address the impacts of inventory fluctuations** on the measurement of financed emissions.
- An analysis was conducted on potential adaptations of the current financed emissions formula, to objectively review if **alternative metrics** or **dampening approaches** are more suitable than the current method. This draft consultation paper represents the discussion and findings from the working group.

## Feedback sought for the consultation

- A disclosure-based approach for fluctuations is more practical than a dampening approach
  - Feedback requested: Should dampening approaches (e.g., 3-year average EVIC) be further explored?
- Each of the options to treat misalignment of financial and environmental data presented in this consultation paper have their share of advantages and disadvantages.
  - Feedback requested: Feedback on the presented options for treating misalignment, and should PCAF recommend a specific option in the standard?
- Attribution analysis aids transparency by explaining changes in financed emissions.
  - Feedback requested: Experiences with implementation and challenges of attribution analysis, should it be optional or mandatory, is there interest in developing prescriptive guidance for attribution analysis.

# The new methods & guidance for Part A of the PCAF Standard

## Securitizations and Structured Products



- In this method, “structured products” refers to any whole loans (un-tranched), private asset-backed finance, and public securitizations where assets are **legally ringfenced** to achieve bankruptcy remoteness.
- This asset class includes securitizations and structured products with **various types of underlying collateral**. An evaluation of the underlying collateral must be performed to determine the applicable methodology.

## Sub-sovereign Debt



- This asset class includes **sub-sovereign bonds** and **sub-sovereign loans** of all maturities issued in domestic or foreign currency.
- Sub-sovereign issuers are defined as issuers with **jurisdiction** and **influence** over a certain territory within a country **below sovereign level** e.g., regions, cities, municipalities.

## Undrawn Loan Commitments



- This guidance ensures **interoperability** between the **PCAF Standard** and the **IFRS S2** by defining a calculation method for financed emissions from undrawn loan commitments. This will enable FIs to fully comply with IFRS S2 reporting requirement.
- The proposed calculation methodology for undrawn loans builds upon the reporting and emission calculation methodology of **Part A**.

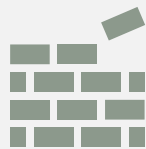
# The new methods for Part C of the PCAF Standard

## Treaty Reinsurance



- Guidance for reinsurers on calculating insurance-associated emissions of their **reinsurance portfolios**.
  - Also relevant for primary insurers who choose to report their insurance-associated emissions net of reinsurance.
- Treaty reinsurance is applied in most lines of business to **transfer risk** from a re/insurer to another.

## Project Insurance



- Guidance on how to calculate insurance-associated emissions for project insurance.
- Project insurance is included in Part C as ‘Engineering Lines’, including **construction all-risk** and **engineering all-risk**, and relates to projects which emit GHG emissions over their entire life-cycle.
- This methodology **leverages existing guidance** on commercial lines insurance and personal motor insurance, and where relevant provides a recap of key points.





## Logistics of the consultation

# The public consultation is open until 28 February



- This public consultation seeks **feedback from all relevant stakeholders** to refine these methods. Feedback received during this consultation will inform the final methodologies, ensuring their applicability and effectiveness within the wider financial landscape.
- Participate in the consultation by reviewing the reports and filling out the **survey**. You can also find an offline version of all the consultation questions [here](#).
- Early 2025, we will also be hosting **deep-dive webinars**, where we will go into detail on the methodology for the new additions.
- Learn more by visiting the public consultation webpage: [link](#)
- For all **questions** about the public consultation, please contact the PCAF Secretariat at: [info@carbonaccountingfinancials.com](mailto:info@carbonaccountingfinancials.com)



Q&A



# Thank you!



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