

PCAF UK

2020/21 Workplan

19 November 2020



PCAF

Partnership for
Carbon Accounting
Financials

1. Introduction: Financed Emissions

The global financial sector is increasingly aware of the economic instability associated with climate change and its role in steering the global economy towards a 1.5°C future. As a result, many organisations are seeking to better manage their climate-related risk and align their portfolios with the goals of the Paris Agreement. There is an increasing understanding that every lending and investment decision undertaken by a financial institution has a direct or indirect impact on the real economy, and therefore an associated climate impact.

The greenhouse gas (GHG) emissions associated with the economic activity that was facilitated by a financial institution are referred to as the bank's or investor's financed emissions. Financed emissions are a key metric for organisations that wish to manage their climate-related risk, develop innovative sustainable finance products that facilitate a low carbon transition and steer towards net-zero.

Until November 2020, there was no globally accepted methodology for measuring financed emissions, leading to a lack of transparency and consistency across financial sector reporting on climate impact. In September 2019, the Partnership for Carbon Accounting Financials (PCAF) launched a global initiative to harmonise carbon accounting methods and enable financial institutions to consistently measure and disclose their financed emissions. At the time of publishing this document, 86 banks and investors participate in PCAF.

In its recently published Global GHG Accounting and Reporting Standard for the Financial Industry (the Standard), PCAF provides guidance and methodologies for measuring financed emissions for six asset classes: Listed Equity & Debt, Business Loans, Project Finance, Mortgages, Commercial Real Estate and Motor Vehicle Loans. The Standard builds on the work undertaken by regional PCAF groups in the Netherlands and North America that has been ongoing since 2015.

Key messages:

- The Partnership for Carbon Accounting Financials UK group (PCAF UK) is a recently formed group of ten financial organisations, representing total financial assets of over \$4.5 trillion, that is committed to improving measurement and reporting of the GHG emissions associated with their loans and investments, aka their financed emissions.
- Over the next year, the group will focus on improving the accuracy of measuring the financed emissions associated with their residential property and agriculture & forestry portfolios, with the intention of adding other asset classes and financial instruments over time.
- PCAF UK will deliver its workplan over the next 12 months and report at COP26.
- UK (and other) financial institutions interested in joining the effort should contact info@carbonaccountingfinancials.com

2. PCAF UK builds upon the global initiative

PCAF UK was formed in October 2020 and aims to embrace and strengthen the global PCAF effort by bringing together UK financial institutions to collaboratively meet the challenges in measuring and reporting financed emissions both in the context of UK net zero commitments and international development efforts.

The group's core work will focus on increasing the empirical accuracy of its measurement of financed emissions, and through that managing its climate-related risk and increasing its ability to respond to national commitments arising from the Paris Agreement.

PCAF UK is chaired by the International Business of Federated Hermes. As of November 2020, members of PCAF UK include NatWest Group, Federated Hermes, Lloyds Banking Group, Nationwide, Investec, Triodos Bank, CDC Group, Ecology Building Society, Barclays, and Virgin Money.

Together, the group represents a total of over \$4.5 trillion in financial assets through lending and investments. The group will be supported by Mark Carney in his capacity as COP26 advisor. The UK Department of Business, Energy, and Industrial Strategy and the Bank of England will both be observers.

3. PCAF UK will focus its efforts on the residential property and agriculture & forestry sectors

PCAF UK members provide a diverse set of financial services and include asset owners and investment managers, commercial and investment banks, as well as development finance institutions. While members can pursue specific themes and topics of interest, the group's workplan over the next 12 months will focus on residential property and agriculture & forestry, and the resulting working papers will be presented at COP26. The focus areas were chosen because of 1) the exposure of the group to the residential property and agriculture

sectors, 2) the disproportionate climate imperative to reduce emissions in these sectors, 3) the current insufficiencies in data in these sectors, 4) the vital role of forestry and nature-based solutions in climate mitigation and achieving net-zero targets, and 5) the need to further develop methodologies for carbon removals associated with these sectors.



Why the residential property sector is a priority for PCAF UK

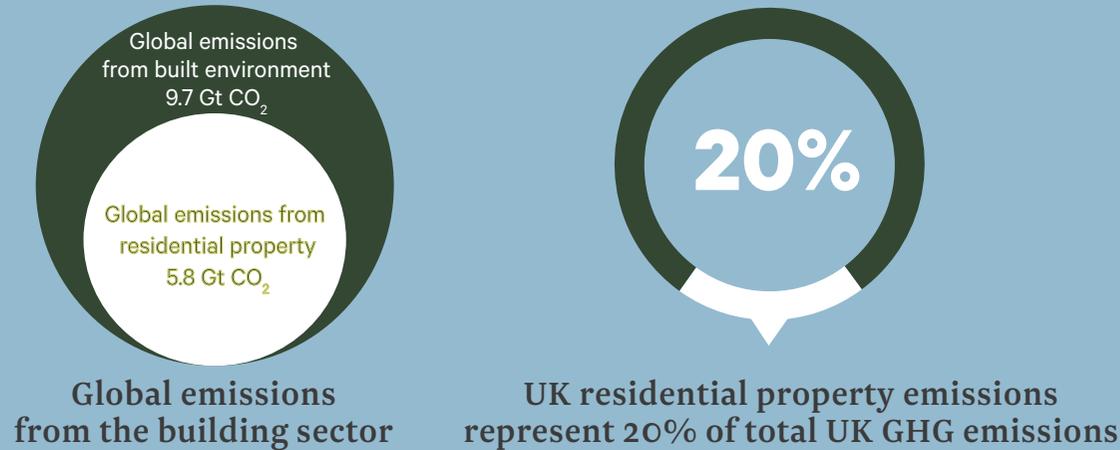


Figure 1: Global emissions from built environment¹ and fraction of UK emissions from residential property²

3.1 Residential property sector

Links to other efforts

PCAF UK's work on improving present data quality (for e.g. EPCs) and disclosures for the residential property sector will leverage historic and ongoing work from other groups, both domestic and international. PCAF UK can learn valuable lessons from the PCAF Netherlands group, which has been working with Statistics Netherlands and utility companies to improve access to high quality residential energy consumption data that can be used for producing robust disclosures for this sector. PCAF UK will also work with similar UK-based energy efficiency initiatives, such as the Green Finance Institute's Coalition for the Energy Efficiency of Buildings (GFI CEEB)³ and incorporate the findings of historical UK academic initiatives, such as the Smarter

Household Energy Data Project.⁴

PCAF UK will also explore how the methodologies when applied to the residential property sector supports and aligns with international climate efforts such as the Science Based Targets Initiative (SBTi) and the Task Force on Climate-related Financial Disclosures (TCFD). Measuring financed emissions is the first step for setting science-based targets in the residential property sector. Additionally, part of a financial institution's TCFD reporting explores the opportunities associated with the transition to a low-carbon economy. Understanding the carbon-intensity of their residential property portfolios can help PCAF UK members evaluate the potential opportunities for innovative products such as Energy Efficient Mortgages.⁵

¹ Data from 2018. Source: [IEA and United Nations Environment Programme \(2019\). '2019 Global Status Report for Buildings and Construction - Towards a zero-emissions, efficient and resilient buildings and construction sector'](#)

² Percentage from 2017. Source: [Committee on Climate Change \(2018\). 'Reducing UK emissions - 2018 Progress Report to Parliament'](#)

³ GFI and PCAF UK will collaborate so that GFI will observe the work of PCAF UK, and PCAF UK will join the GFI CEEB. More information on GFI CEEB can be found at: <https://www.greenfinanceinstitute.co.uk/ceeb>

⁴ More information on the Smarter Household Energy Data Project can be found at: <https://www.ukdataservice.ac.uk/about-us/our-rd/smarter-household-energy-data>

⁵ Information on Energy Efficient Mortgages can be found at: <https://eemap.energyefficientmortgages.eu/eem-definition>



Why agriculture & forestry are a priority for PCAF UK

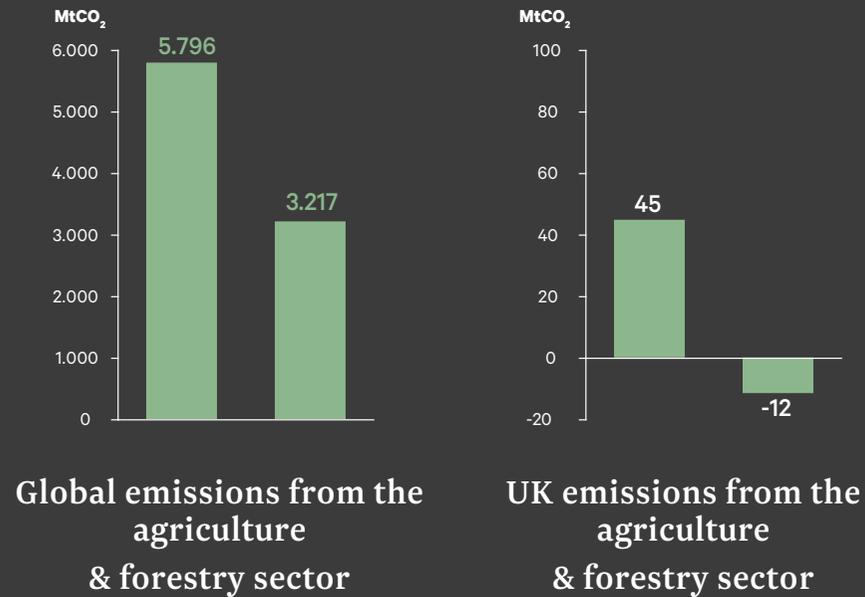


Figure 2: Global⁶ and UK⁷ emissions from agriculture and LULUCF



Figure 3: Forestry coverage in UK and EU⁸

3.2 Agriculture & forestry sector

We also note that the scope of carbon accounting is increasingly holistic, in part reflecting the complexity of climate science and its emphasis on non-linearity. The GHG protocol, for example, is currently being expanded to incorporate not only sources of global warming but sources of global warming mitigation, including sources of atmospheric carbon removals.

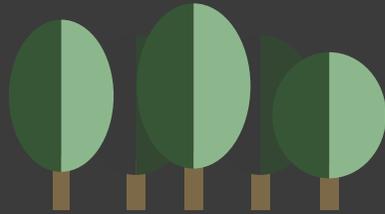
Carbon removals can take the form of sequestration into organic materials such as trees or soil, also known as Nature-Based Solutions (NBS) or, more broadly, negative emissions technologies that can be organic or mechanical.

⁶ Data from 2016. Source: Climate Watch, Global Historical Emissions, Data source: [CAIT](#)

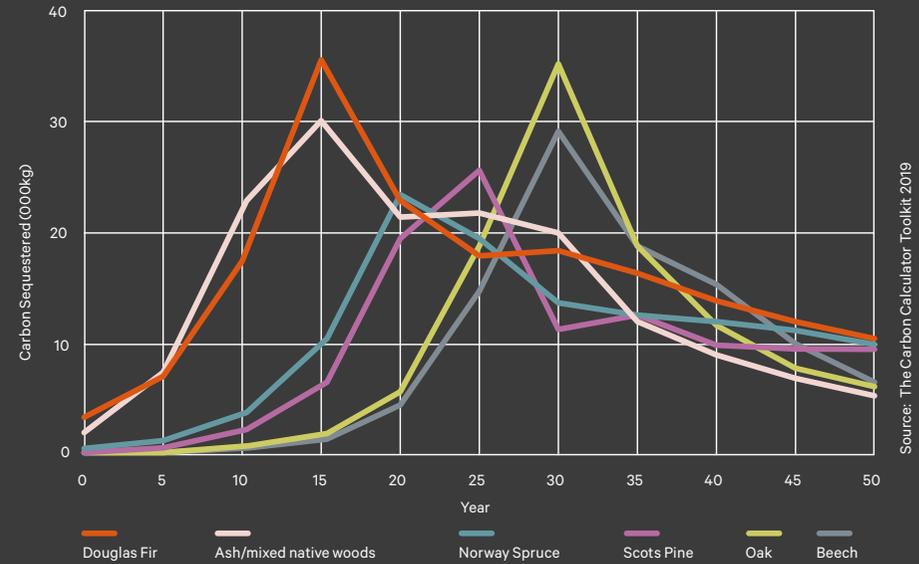
⁷ Agriculture data from 2018. Source: Committee on Climate Change (2018), '[Reducing UK emissions – 2018 Progress Report to Parliament](#)'; LULUCF data from 2018. Source: BEIS (2020), '[2019 UK greenhouse gas emissions, provisional figures](#)'

⁸ Source: E. Norton and M. Biddell, Savills Research (2020), '[Trends in tree planting](#)'

Why agriculture & forestry are a priority for PCAF UK



One hectare of newly planted native broadleaves sequestres about
300t of CO₂
 over a 50 year period UK emissions from the agriculture & forestry sector



Tree sequestration rates per hectare CO₂e kg/year

Figure 4: Sequestration rates of trees⁹

Technologies that remove carbon from the atmosphere will likely play a significant role in achieving net zero. The current version of PCAF's Global GHG Accounting and Reporting Standard does not provide a methodology for carbon removals, and PCAF UK has an opportunity to collaborate on an international level with those that have developed the Standard thus far.

⁹ Source: E. Norton and M. Biddell, Savills Research (2020), 'Trends in tree planting'

3.3 Exploring Systemic Inter-relatedness and Scenario Analysis

In its first year's workplan, PCAF UK has an opportunity to better understand links between the residential property and agriculture & forestry sectors. Learnings could inform the delivery of residential property and the restructuring of urban development more broadly, as cities respond to both the climate crisis and Covid-19 by re-evaluating the importance of blended communities and the incorporation of natural capital and biodiversity into property development.

As PCAF UK develops its capacity in accounting for its financed emissions, and its work becomes more sophisticated, potential future work could involve proposing solutions to reduce financed emissions, investigating additional asset classes such as trade finance, or performing forward looking scenario analysis in the residential property sector using energy forecasts.

4. PCAF UK's call to action for UK and global financial institutions

PCAF UK members are committed to climate action and believe that by measuring financed emissions, they are better prepared to manage climate-related risks and opportunities and steer towards net-zero portfolios. The group encourages other UK financial institutions to join the effort to provide long-term financial stability to a global economy that faces increasing uncertainty resulting from climate change.

PCAF is a free initiative and open to any financial organisation worldwide, that is willing to commit to begin its journey in measuring financed emissions.

Interested parties should contact

info@carbonaccountingfinancials.com



“If the financial system is to manage the risks from climate change and support the transition to net zero, it needs new methods and new tools to measure the greenhouse gas emissions it finances.

PCAF’s work to standardise and improve transparency in measuring financed emissions is a timely and important step in supporting that goal.”

Sarah Breeden, Executive Director for UK Deposit Takers Supervision,
Prudential Regulation Authority and Executive Sponsor of the Bank’s work
enhancing the financial system’s resilience to climate change.