



Memorandum

To: Securities and Exchange Commission

From: The PCAF Secretariat

Date: June 11, 2021

Re: Input on climate change disclosure

Esteemed members of the Securities and Exchange Commission,

The Partnership for Carbon Accounting Financials (PCAF) Secretariat is grateful for the opportunity to provide input to the Securities and Exchange Commission on the topic of corporate disclosures related to climate change.

Since PCAF Global and PCAF North America were launched in 2019, we have sought to harmonize the methods for measuring and disclosing financed emissions across financial sectors and markets to produce a single Standard, applicable and useful to companies and stakeholders. The first Global Standard was launched November of 2020, and is now being used by asset managers, asset owners and banks globally as the Greenhouse Gas Protocol compliant methodology for Scope 3, category 15 emissions - loans and Investments.

We submit this information on the collective work of financial institutions to assess and disclose the direct and indirect emissions of our portfolios in the context not only of the request for information from Acting Commissioner Alison Heron Lee at the SEC, but also the recent Executive Order from President Biden on Climate Related Financial Risk. The comprehensive effort of the Administration to disclose and mitigate climate-related financial risk is an important outline of efforts to address climate-related risk in both the private and public sectors and an important step in protecting investors and the economy from the escalating risks of climate change. The integration of SEC actions in the context of the work of the Financial Stability Oversight Council assumed under the May 20th Executive Order is a welcome approach to harmonizing climate risk data, disclosure, and action.

For questions, please contact info@carbonaccountingfinancials.com.

Sincerely,
The PCAF Secretariat

Key Points

- [The Partnership for Carbon Accounting Financials](#) (PCAF), a collaboration of 123 financial institutions with assets over USD\$39 trillion, has created [The Global GHG Accounting and Reporting Standard for the Financial Industry](#). The Standard provides financial institutions with the first-ever global, consistent, and robust methodology for calculating and disclosing financed emissions (i.e., emissions driven by loans and investments).
- Understanding financed emissions is a necessary first step in a financial institution's climate action journey, enabling additional activities such as understanding climate-related transition risks and opportunities, conducting scenario analysis, setting science-based targets, and creating transparent disclosures.
- Application of the Standard to measure financed emissions requires data such as the verified reported emissions of investees and borrowers. In the absence of primary data, emission factors and other proxy information are needed to estimate emissions.
- Universal climate disclosures following the PCAF Standard can enable the standardization of financed emissions measurement and disclosure. Ultimately, this will help reduce climate-related risk in the financial sector as well as help to mitigate global climate change.

A range of voluntary frameworks have been developed for assessing not only climate-related risk but also broader ESG performance, the most significant of which include the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), the Carbon Disclosure Standards Board (CDSB), and the Global Reporting Initiative (GRI). These frameworks do not themselves provide a uniform approach to measuring financed emissions, which is the gap in the sector that PCAF fills.

The [Partnership for Carbon Accounting Financials](#) (PCAF) is the first global partnership created by the financial industry to harmonize the measurement and disclosure of financed greenhouse gas (GHG) emissions (i.e., emissions driven through loans and investments). Prior to PCAF, there was no consistent set of rules for financial institutions to follow, creating inconsistency, inaccuracy, and lack of accountability in quantifying, reporting, and evaluating financed emissions.

PCAF created [The Global GHG Accounting and Reporting Standard for the Financial Industry](#) (the Standard) in November of 2020. The Standard was developed through a collaborative effort between PCAF's financial institution members as well as a public consultation and is backed by the Greenhouse Gas Protocol, which provides the world's most widely used greenhouse gas accounting standards. PCAF is the only global, standardized, robust methodology to measure and disclose the financed emissions of a portfolio.¹

The methodologies in the Standard currently cover six asset classes: listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages, and motor vehicle loans. Within the next one to two years, the Standard will expand to cover emission removals, sovereign debt, capital market instruments and green bonds, adapting to meet the needs of the partnership's rapidly growing member base.

¹ The Standard provides a detailed methodology for Scope 3, Category 15 – loans and investments, supplementing the existing guidance in the [Greenhouse Gas Protocol Corporate Standard](#). It was 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.

As of June 11, 2021 the partnership consists of [123 global financial institutions](#) with over USD\$39 trillion in assets, of which 19 members with over USD\$15 trillion are headquartered in the U.S. PCAF aims to recruit at least 250 members by the end of 2022, creating a critical mass to spur adoption of the Standard across the financial sector. Members are committed to measure and disclose emissions of at least part of their portfolios within three years of joining PCAF. In addition, many asset owners and public development actors are applying the methodology, though have not formally committed to joining PCAF as members. As such, they are frequently following the methodology but have not made the same disclosure commitment.

Measuring and disclosing financed emissions are a pre-requisite for other steps in a financial institution's climate action journey (see Appendix). Financial firms need to understand where their emissions lie to effectively identify, manage, and disclose transition risks, progress towards decarbonization goals, and conduct scenario analyses in line with the TCFD recommendations. In its [Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans](#), the TCFD proposes *"to update its Supplemental Guidance for the Financial Sector to clarify that banks, asset owners, asset managers, and the asset management side of insurers should disclose financed emissions in line with PCAF's methodology"*. PCAF supports TCFD's core elements:

- PCAF provides the methodology to measure scope 1, 2 and 3 emissions annually, enabling financial firms to set a GHG target baseline as well as track progress against the GHG target.
- Understanding emissions hotspots enables financial institutions to identify, assess, and manage climate-related transition risks.
- By understanding emissions hotspots identified through the PCAF Standard, financial firms can also make informed decisions in their climate strategy and financial planning to minimize climate-related transition risks and mitigate their own climate impact.

All of the above efforts rely on a financial institution's ability to effectively measure and disclose on GHG emissions using the standardized, robust methodology that PCAF provides.

In addition to the TCFD recommendations, PCAF is aligned with other climate initiatives and leading ESG platforms. Calculating the volume of emissions currently being generated is a necessary step for understanding the level of GHG emission reductions a firm must target in order to do its part to meet the goals of the Paris Agreement through science-based target setting. The [Science Based Targets initiative's guidance for the financial sector](#) recommends that financial institutions use the PCAF Standard to conduct a portfolio-wide emissions screening and prioritize which part of a portfolio to focus on for target setting, as well as measure annual progress. Calculating emissions on an ongoing basis also allows financial institutions to track progress against net-zero scope 1, 2 and 3 targets from the Net Zero Asset Owner Alliance (represented in PCAF's Steering Committee), Net Zero Banking Alliance, and the Net Zero Asset Manager Initiative. To further demonstrate PCAF's alignment with other climate initiatives, the [CDP Climate Change Questionnaire for the Financial Services Sector](#) incentivizes PCAF membership through its scoring methodology.

The disclosures of emissions data provide the aforementioned value to participating companies. The topline or public information provided by PCAF analysis is also of significant use by investors in assessing performance to transition goals and evaluating risk with a common set of metrics.

Financed emissions cannot be measured without data. PCAF provides a scoring system on a scale of 1 to 5 to help stakeholders understand and communicate the accuracy of emissions reported, even when data sources may not be consistent from company to company and market to market. The highest quality data receive a score of 1, representing the emissions reported by the investee or borrower, verified by a third party. In the absence of investee or borrower emissions data, financed

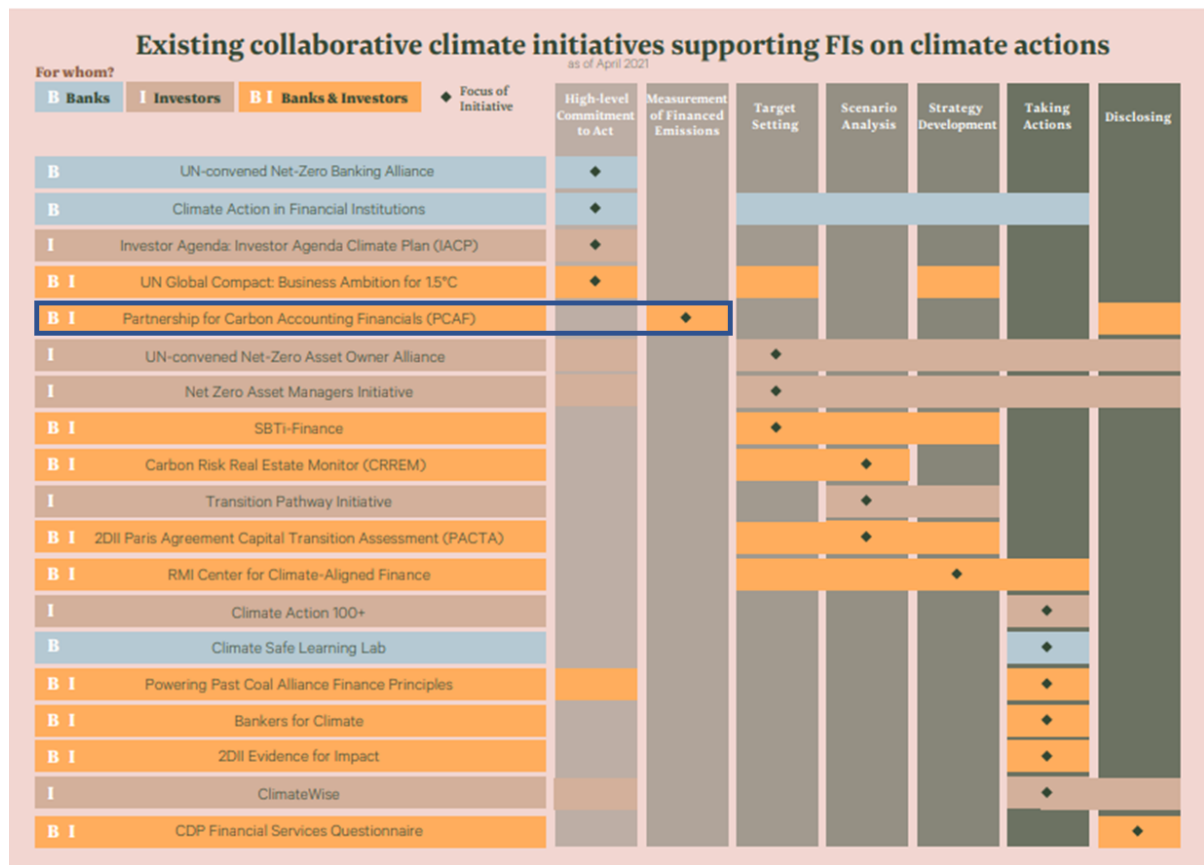
emissions must be estimated using proxy information derived from the company's data, (e.g., outstanding loan amounts, equity and debt of the borrower or investee), emissions factors, and physical or economic activity indicators. There are often variations in the quality of source data, from reported emissions to information required for estimated emissions calculations. In particular, non-publicly traded company data are widely unavailable due to the absence of stakeholder pressure to provide the data, inhibiting the efforts of companies attempting to measure their emissions. Please see the Appendix for a high-level summary of data needs.

Appendix

A-1 PCAF plays an important role in the climate action journey

PCAF provides a standard to measure and disclose financed emissions, which is a necessary step that precedes activities such as GHG target setting, scenario analysis, strategy development and disclosure.

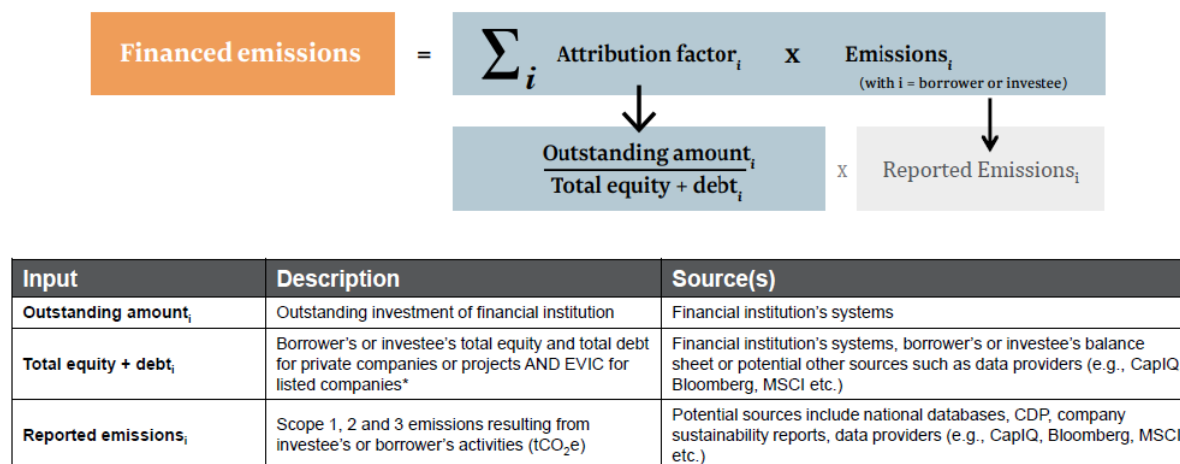
Figure 1 PCAF is uniquely positioned as one of the first steps in financial institutions' climate action journey



A-2 GHG accounting requires data

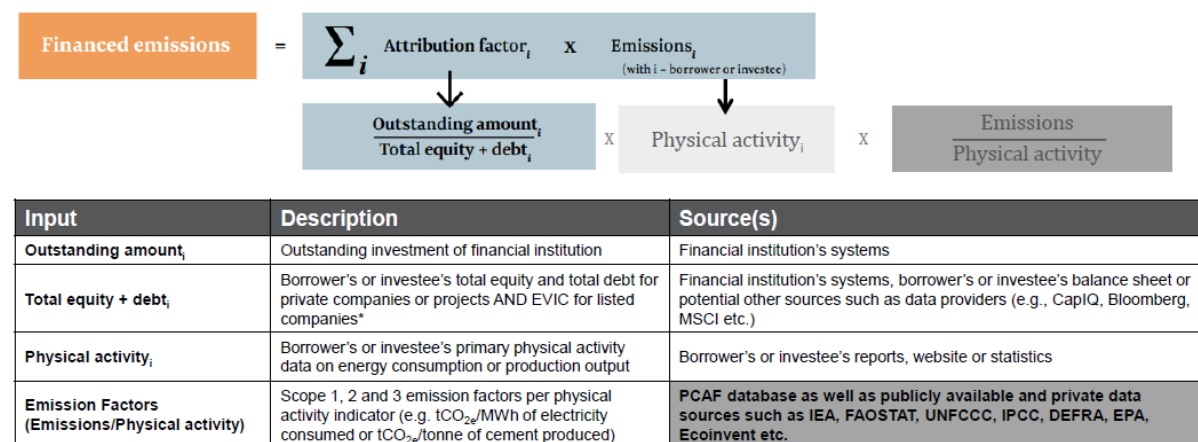
There are multiple ways to calculate or estimate financed emissions, depending on data availability. The figures below illustrate the ways in which financial institutions can determine their financed emissions shown in order of highest data quality (i.e., reported emissions) to lower levels of data quality (i.e. emissions estimated using physical or economic activity indicators). Activity indicators do not always provide a direct correlation to emissions impact, but can help determine emissions hotspots where reported emissions of borrowers and investees is unavailable.

Figure 2 Borrowers and investees' emissions are used by financial institutions to calculate their financed emissions



*The data point needed for commercial real estate (CRE), mortgages and motor vehicle loans slightly differs (i.e. property value at origination for CRE and mortgages, while total value at origination for motor vehicles).

Figure 3 Physical activity indicators can be used to determine financed emissions impact



*The data point needed for commercial real estate (CRE), mortgages and motor vehicle loans slightly differs (i.e. property value at origination for CRE and mortgages, while total value at origination for motor vehicles).

Figure 4 Economic indicators can be used to determine financed emissions impact

$$\begin{aligned}
 \text{Financed emissions} &= \sum_i \text{Attribution factor}_i \times \text{Emissions}_i \quad (\text{with } i = \text{borrower or investee}) \\
 &\quad \downarrow \\
 &\quad \frac{\text{Outstanding amount}_i}{\text{Total equity + debt}_i} \times \text{Revenue}_i \times \frac{\text{Sectoral emissions}}{\text{Sectoral revenue}} \\
 \text{OR} &\quad \text{Outstanding amount}_i \times \frac{\text{Sectoral emissions}}{\text{Sectoral assets}}
 \end{aligned}$$

Input	Description	Source(s)
Outstanding amount _i	Outstanding investment of financial institution	Financial institution's systems
Total equity + debt _i	Borrower's or investee's total equity and total debt for private companies or projects AND EVIC for listed companies*	Financial institution's systems, borrower's or investee's balance sheet or potential other sources such as data providers (e.g., CapIQ, Bloomberg, MSCI etc.)
Revenue _i	Borrower's or investee's total revenue, ideally split per production output	Borrower's or investee's reports and balance sheet or potential other sources such as data providers (e.g., CapIQ, Bloomberg, MSCI etc.)
Emission Factors (Sectoral emissions/[Sectoral revenue or sectoral assets])	Scope 1, 2 and 3 emission factors per generated USD revenue or asset	PCAF Database

*The data point needed for commercial real estate (CRE), mortgages and motor vehicle loans slightly differs (i.e. property value at origination for CRE and mortgages, while total value at origination for motor vehicles).