Measuring, Disclosing and Managing “Financed Emissions”

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3 Scopes of Corporate GHG Emissions

Scope 1: Direct
- Transportation and distribution
- Company vehicles
- Company facilities

Scope 2: Indirect
- Employee commuting
- Business travel
- Energy-related activities
- Leased assets
- Purchased electricity, steam, heating & cooling for own use

Scope 3: Indirect
- Processing of sold products
- Use of sold products
- End-of-life treatment of sold products
- Franchises
- Investments

Upstream activities
- Purchased goods and services
- Capital goods
- Fuel and energy-related activities
- Transportation and distribution
- Waste generated in operations

Reporting company
- Purchased electricity, steam, heating & cooling for own use
- Employee commuting
- Business travel
- Leased assets
- Energy-related activities

Downstream activities
- Transportation and distribution
- Company vehicles
- Company facilities
- Processing of sold products
- Use of sold products
- End-of-life treatment of sold products
- Franchises
- Investments


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Carbon Risk - The two Rs

1. Regulatory risk
2. Reputational risk
Why are GHG emissions increasing in importance for financial intermediaries?

1. Climate impacts are intensifying

2. Steady, bottom-up build-up of public policy

3. Growing expectations of investor transparency

4. Regulatory shift to mandatory reporting - for companies and investors
How can Financial Intermediaries manage carbon risk exposure?

1. Understand and measure carbon risk exposure
2. Carbon footprint analysis at the company and portfolio level
3. Reporting of ‘financed emissions’ to address stakeholder, regulatory disclosure pressures and show environmental stewardship as well as ‘progress over time’
4. Managing risk exposure by reducing the carbon footprint of individual investments and entire portfolios
How can FIs manage carbon risk exposure?

1. **Understand & Measure**

   - Mapping external risk factors: policy, markets, technology, society
   - Quantify carbon footprints
   - Both *qualitative* and *quantitative* approaches required
How can FIs manage carbon risk exposure?

2. Measure carbon intensity at the company and portfolio level

- Comprehensive carbon risk assessment often requires carbon footprint analysis at the company or ‘position’ level
- Carbon footprinting analysis at the portfolio level, however, is key for:
  1. Disclosure: Client reporting / Public accountability / Tracking progress over time
  2. Risk Management: when ‘external factors’ are constant / Tracking risk exposure over time
How can FIIs manage carbon risk exposure?

3. Report on ‘financed emissions’ to address stakeholder, regulatory disclosure pressures and show environmental stewardship as well as ‘progress over time’

- Avoid reputational risk through robust and meaningful disclosure of financed emissions
- Explain to external users of information that ‘apples have to be compared with apples’
- Set meaningful but realistic decarbonisation targets, and track progress over time
- Requires a ‘quality disclosure standard’ to comply with
How can FIs manage carbon risk exposure?

4. **Reducing** carbon risk exposure

- ‘Geographic approaches’ (does only reduce the regulatory component, not the reputational component of carbon risk exposure)
- ‘Carbon footprint approaches’ (does reduce both regulatory and reputational components of carbon risk exposure)

1. Sector allocation
2. Stock selection
3. Engagement
4. Passive investment in carbon-tilted indexes
Barriers for Financial Intermediaries towards measuring and disclosing GHG intensities?

- Perceptions of weak policy and reputational drivers
- Quality, availability and cost of corporate GHG data
- Analytical methodologies and interpretation
Where Next for Financial Intermediaries towards measuring and disclosing?

- Develop a strategic response – building on carbon footprinting to address full Scope 3 performance
- Anticipate societal and regulatory disclosure requirements with industry-driven approach
- Collaborate to develop common data and methodologies
- Use carbon performance results to inform shareholder engagement and asset allocation decisions
The role of Asset Owners

“At Local Government Super, we regularly monitor the carbon performance of the companies in our portfolios, as well as of our portfolios themselves. This dual approach helps us assess and manage carbon risks, compare our own carbon performance to that of our peers, and clearly communicate with our members on the climate change and greenhouse gas issues associated with their savings.”

Peter Lambert, CEO, Local Government Super
Role of Carbon Footprinting at Portfolio level

- Client reporting and positioning
- Manager monitoring
- Efficiency gains over time
- Risk management
- Public accountability
UNEP FI Efforts : First Step

Investor Briefing:

Measuring and disclosing the carbon intensity of investments and investment portfolios

Available on unepfi.org
UNEP FI & GHG Protocol: The journey so far

Scoping phase that has involved:

- A global survey completed by 104 organisations, largely from the finance sector
- 3 Scoping workshops in London, New York City, and Melbourne
- Internal consultations with UNEP FI members
- Result: mandate to develop guidance on how meaningful & sensible GHG accounting and reporting can be undertaken by financial intermediaries (in line with the logic of GHG Protocol’s Standards)
107 respondents completed the survey

Respondents by organization type:

- Commercial Banks: 29%
- Consultancy: 20%
- NGO: 12%
- Asset manager: 7%
- Development Banks: 5%
- Export-Import Banks: 2%
- Insurance: 4%
- Investment advisor: 1%
- Government department: 3%
- Data provider: 3%
- Academic: 3%
- Media: 1%
- Other: 5%

Respondents by region:

- North America: 28%
- Europe: 41%
- Latin America: 12%
- Asia: 7%
- Africa: 2%
- Australia: 2%
- Unknown: 7%
**Key question 1:** Is measuring and reporting emissions associated with lending and investments an important business issue?

- No: 10%
- Not sure: 9%
- Other: 6%

**Key question 2:** Is there a significant and long-term need for standardized methodologies/guidance for measuring financed emissions?

- Yes: 75%
- Not sure: 9%
- Other: 3%
Key question 1 (FIs only): Is measuring and reporting emissions associated with lending and investments an important business issue?

Key question 2 (FIs only): Is there a significant and long-term need for standardized methodologies/guidance for measuring financed emissions?
 Reasons why respondents said this is an important business issue and that there is a need for guidance

- Risk management
- To identify business opportunities and GHG reduction opportunities
- To facilitate target setting/track reductions
- To enhance accountability/transparency (and reputation)
- To enable comparability/benchmarking
- To harmonize proliferating methodologies
- To harmonize information requested of investees/borrowers
- To increase reliability/credibility of the methods
- Guidance would assist financial institutions that are undertaking this complex task
- To prevent “greenwashing”
Two-year, multi-stakeholder process with strong participation and buy-in from the finance industry. It will:

1. Leverage GHG Protocol’s expertise in developing GHG accounting and reporting standards and guidance.

2. Leverage UNEP FI’s expertise on the functions and needs of the finance sector and the legitimacy that it enjoys within the finance community.

3. Ensure widespread adoption and influence by delivering guidance which is broadly accepted, practically implementable and industry-supported.
Reasons why respondents said this is not an important business issue and that there is not a need for guidance

• Emissions should be measured and managed at source, not by lenders/investors
• Measuring financed emissions is prohibitively complex and time-intensive
• No link established between measuring financed emissions and risk assessment frameworks
• Financial institutions should focus on other, more useful risk assessments
• Prefer to focus on advising clients on more substantive strategies to reduce emissions
**Example** of a Process Underlying the Development of GHGP Standards

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<tr>
<th>Number</th>
<th>Description</th>
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<tr>
<td>2300+</td>
<td>Participants in the stakeholder process</td>
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<tr>
<td>169</td>
<td>Sets of written comments received</td>
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<td>60</td>
<td>Number of road testers</td>
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<td>55</td>
<td>Countries represented</td>
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<td>In–person stakeholder events</td>
</tr>
<tr>
<td>3</td>
<td>Years spent completing the standards</td>
</tr>
</tbody>
</table>
Proposed Governance plan

Convening Secretariat
UNEP FI and GHG Protocol

Advisory Committee
UNEP FI, GHG Protocol, other key business, government, accounting, academic and NGO stakeholders

Technical Working Group
(Practitioners)
Private financial institutions, public financial institutions, academics, accountants, NGOs, policy makers

Stakeholder Advisory Group
(open to all)
Financial Institutions, NGOs, industry analysts, accountants, governments, consultants

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Options for Participation

- Technical Working Group participation
- Road testing draft guidance
- Stakeholder Advisory Group participation
- Contribute funding
Thank you.