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UNEP Finance Initiative

Measuring, Disclosing and Managing "Financed Emissions"

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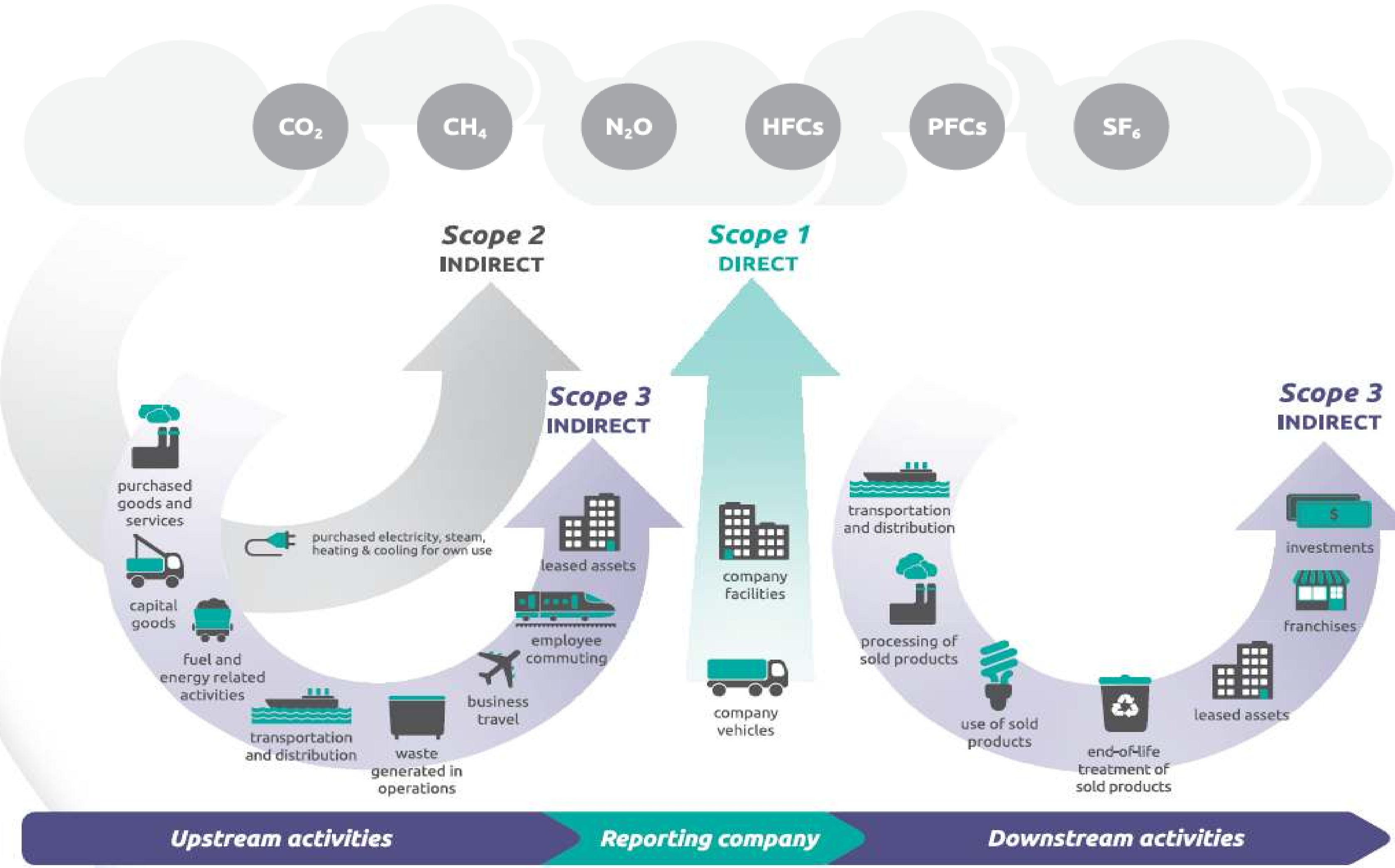
3 Scopes of Corporate GHG Emissions



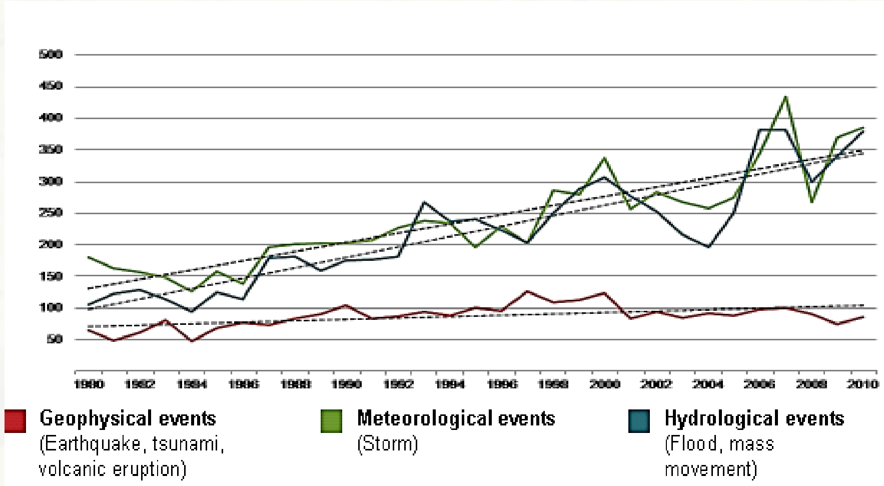
Source: The Greenhouse Gas Protocol, 2011 [73]

Carbon Risk - The two Rs

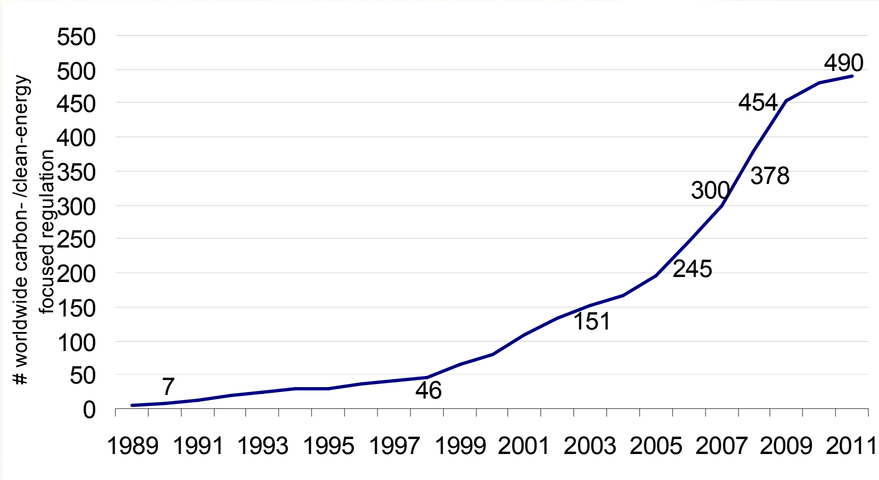
1. Regulatory risk
2. Reputational risk

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**

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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 footrpinting 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 FIs 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 reptuational 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[78]

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)

Who responded to the survey?

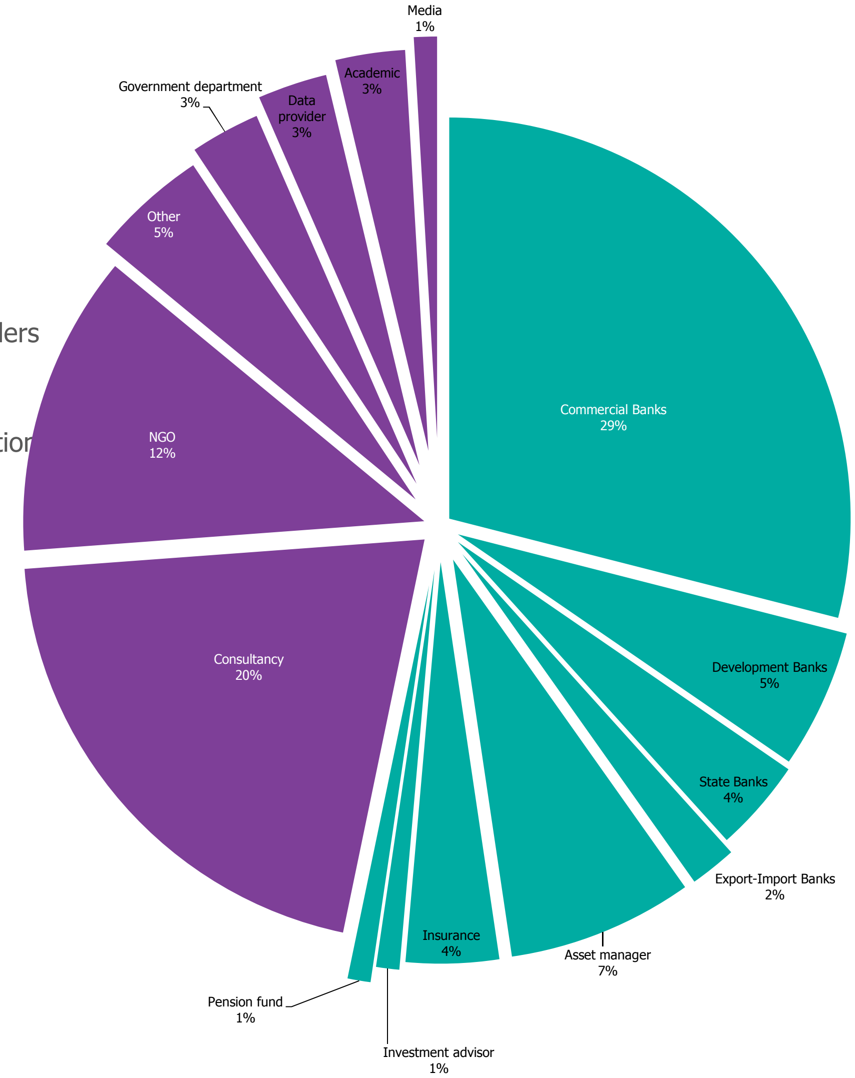
Respondents by organization type:

107 respondents completed the survey

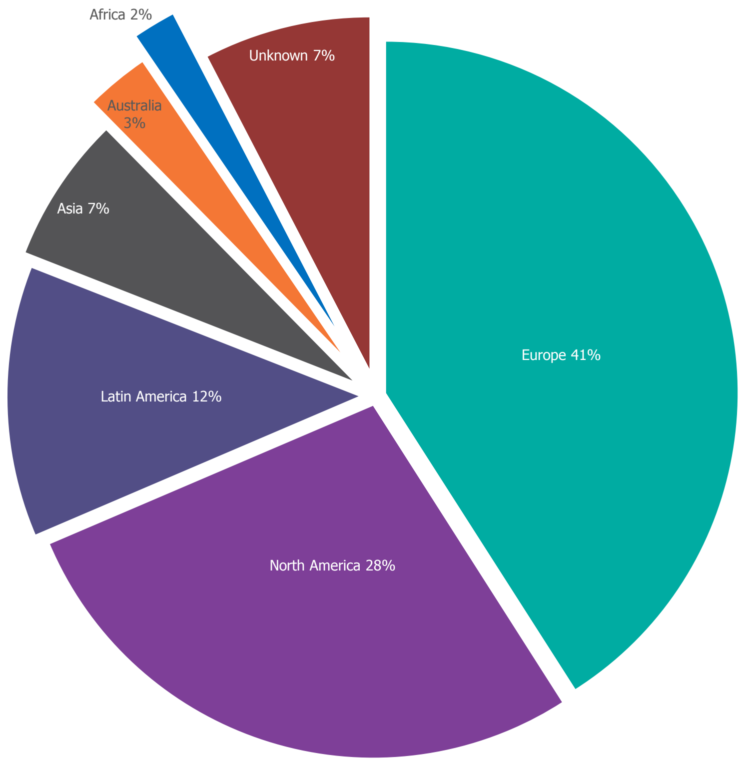
Key:

Financial sector organizations

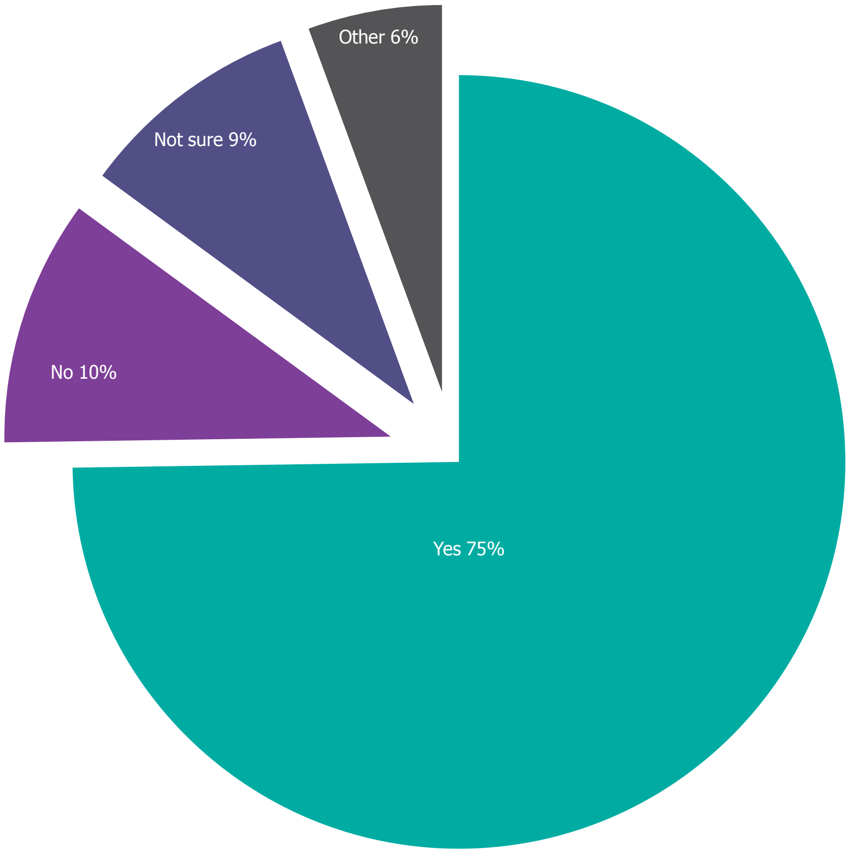
Other stakeholders (not directly working for a financial institution)



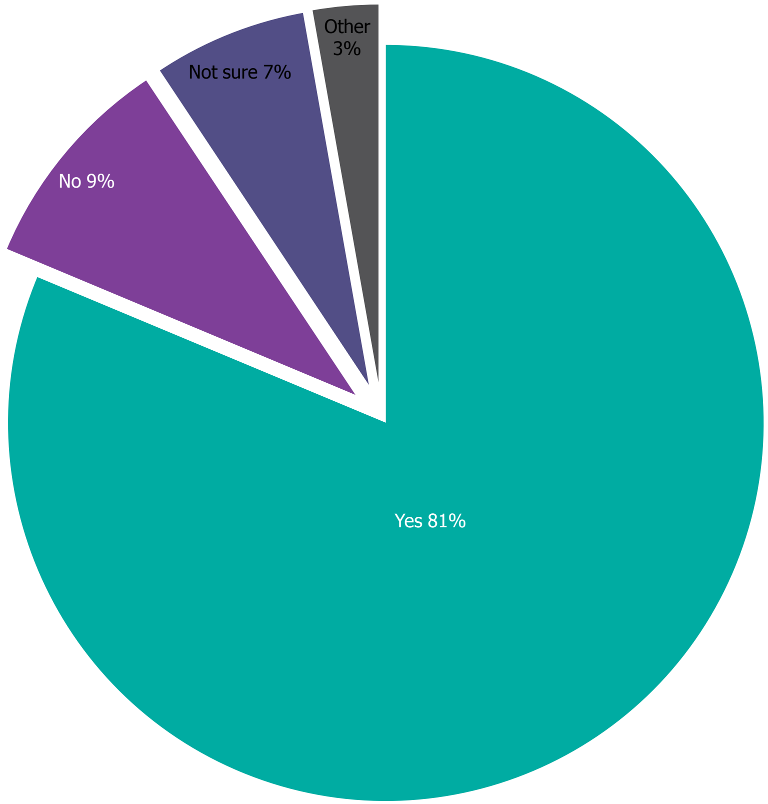
Respondents by region:



Key question 1: Is measuring and reporting emissions associated with lending and investments an important business issue?



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



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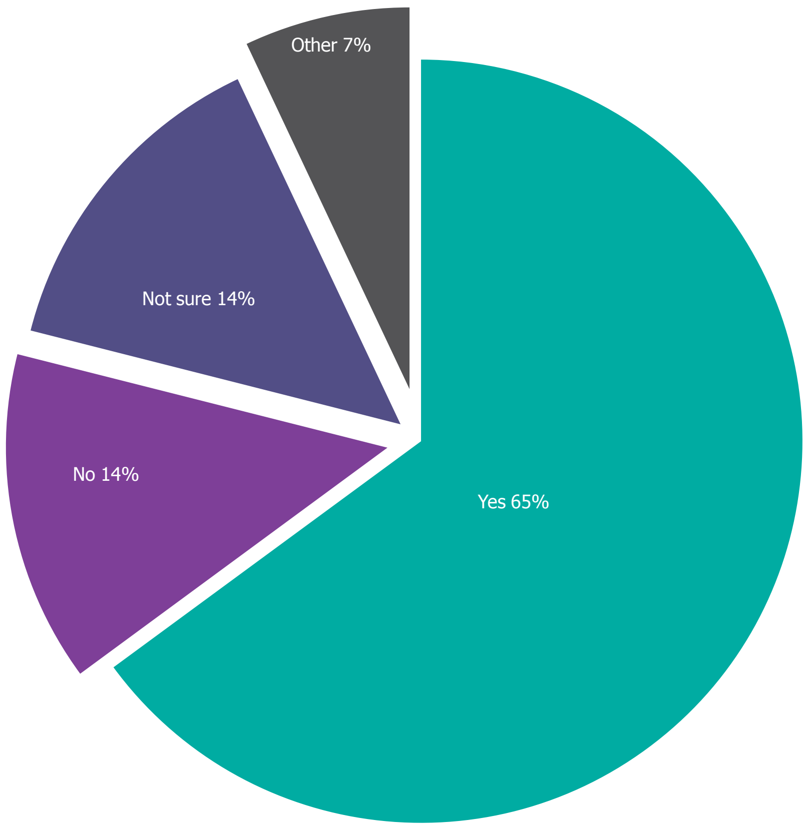

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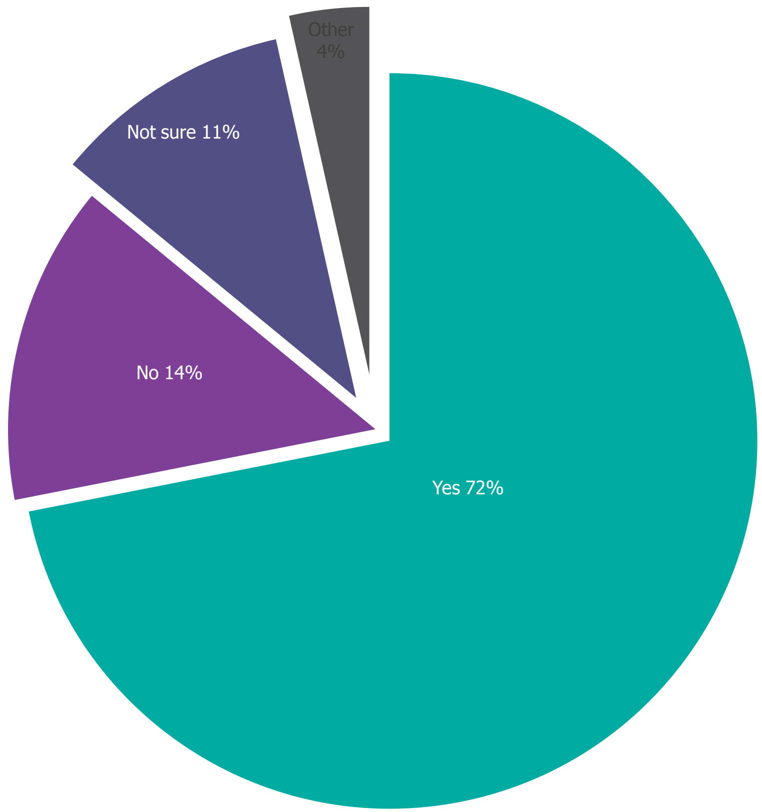

Reasons why respondents said this is an important business issue and that there is a need for guidance

- 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"

UNEP FI & GHG Protocol: The journey Ahead

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

2300+	*Participants in the stakeholder process*
169	*Sets of written comments received*
60	*Number of road testers*
55	*Countries represented*
12	*In –person stakeholder events*
3	*Years spent completing the standards*

GREENHOUSE GAS PROTOCOL

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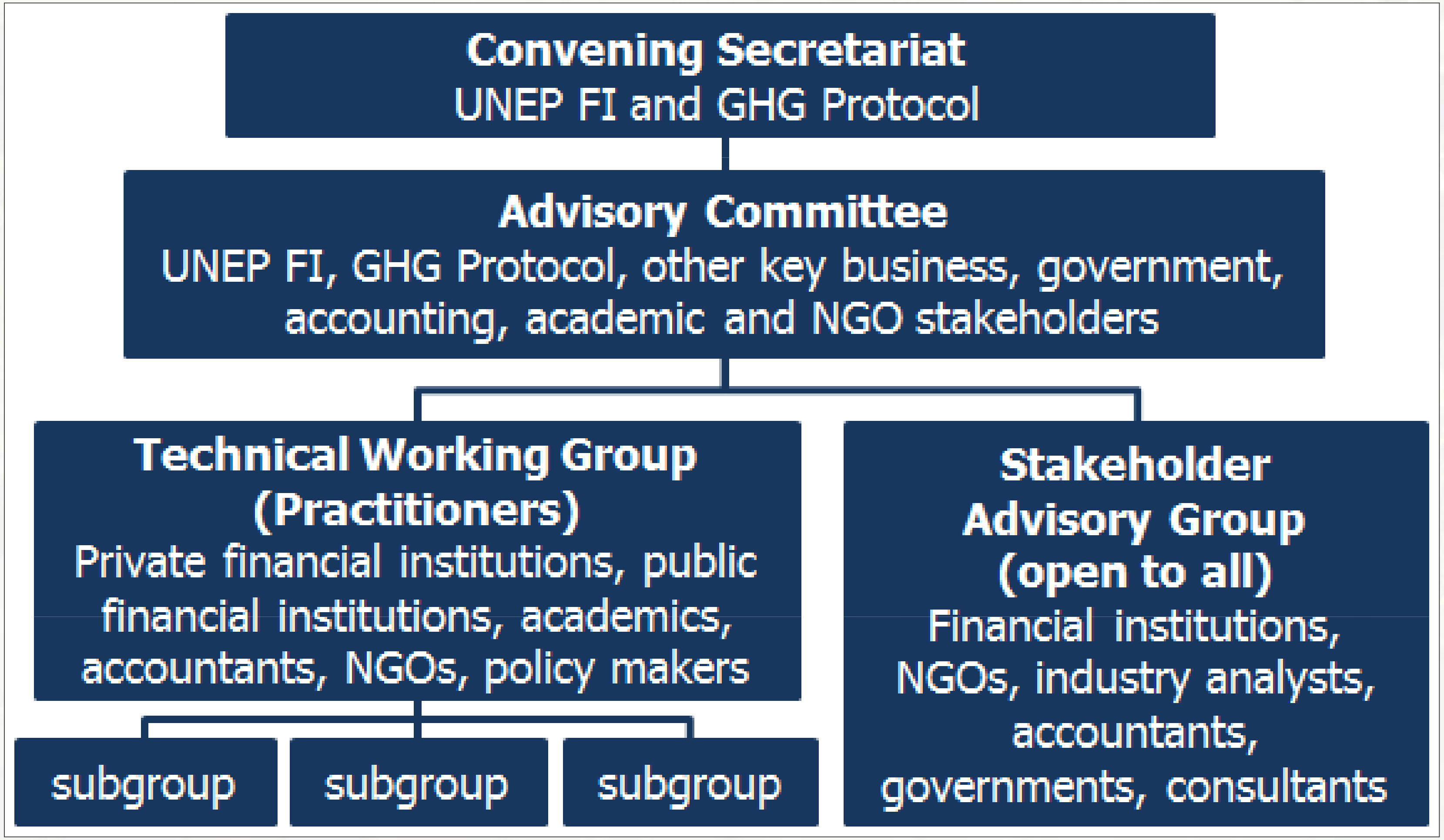
Proposed Governance plan



Options for Participation

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

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Thank you.

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