ACCOUNTING FOR SUSTAINABILITY

# FACILITATED EMISSIONS

## TOP TIPS FOR FINANCE TEAMS OF FINANCIAL INSTITUTIONS

CALCULATING AN EMISSIONS BASELINE

# CONTENTS

# ABOUT THIS GUIDANCE

This Top Tips guidance is for those responsible for calculating a facilitated emissions baseline, which may be the finance, sustainability, strategy or another team within a financial institution. This guidance includes specific tips for finance teams on how they can support this work.

Facilitated emissions relate to a financial institution's role in facilitating capital market activities, typically as a lead bookrunner or a co-manager/lead manager.[1]

This guide sits alongside our complementary guides:

- Financed Emissions – Top Tips for Finance Teams of Financial Institutions
- Insurance-associated Emissions – Top Tips for Finance Teams of Insurers and Reinsurers

The content of this guidance was informed by publicly available information and insights from interviews we held with financial institutions and other experts around the world.

We acknowledge that calculating a facilitated emissions baseline is only part of a financial institution's approach to emissions reduction. The baseline needs to be accompanied by other activities such as emissions-reduction targets, engagement with clients, governments, regulators and others, and collective action to decarbonize the economy. Further information on these areas can be found in the A4S resources section.

**"The capital markets determine where capital is allocated. Without sufficient capital directed towards lending and investments that support net zero, we won't limit global warming to 1.5°C above preindustrial levels. Finance teams have a unique set of skills that can be leveraged to contribute to calculating a facilitated emissions baseline, which is a vital step towards financial institutions taking accountability for their facilitated emissions."**

Helen Slinger, Executive Director, A4S



1. PCAF (2023), Part B – Facilitated emissions

# INTRODUCTION

Capital markets play a pivotal role in the allocation of capital – and they cannot operate without facilitation services.

In 2023, issuances of US$25.6 trillion were made in the global capital markets, made up of US$25.2 trillion of debt and US$0.4 trillion of equity.[2] Capital market participants have a key role to play in mobilizing and redistributing capital to organizations and projects to support the transition to a net zero economy. That transition is estimated to require an average of US$3.5 trillion per annum over the next 30 years.[3]

Financial institutions play a role in facilitating capital market activities, which may include "advising issuers on structure, pricing, and process; preparing materials for, and engaging with, investors; and arranging and guiding clients on roadshows".[4]

Facilitated emissions are a type of scope 3 emission for a financial institution.

**Scope 3 emissions**, as defined by the Greenhouse Gas Protocol (GHG Protocol), are "all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions".[5]

The GHG Protocol Category 15 (Investments) states an optional requirement that "companies may account for emissions from … client services" including "issuance for clients seeking equity or debt capital".[6]

Financial institutions need to understand their facilitated emissions to calculate an emissions baseline. This baseline can then help to inform transition planning, including corporate activities and an engagement strategy.

Measuring and monitoring financed and facilitated emissions assists you in your work to:

- Understand your institution's impacts
- Develop a strategy to reduce emissions
- Set net zero targets
- Track progress
- Prioritize research and development activities and engagement more effectively
- Meet investors' expectations
- Limit climate risk exposure
- Participate in competitive tender processes[7]
- Fulfil regulatory requirements

2. SIFMA (2024), 2024 Capital Markets Fact Book
3. Energy Transitions Commission (2023), Financing the Transition: How to Make the Money Flow for a Net-Zero Economy
4. PCAF (2023), Part B – Facilitated emissions
5. GHG Protocol, FAQ (accessed 25 April 2024)
6. GHG Protocol (2013), Technical Guidance for Calculating Scope 3 Emissions
7. Some organizations require emissions information as part of their procurement process.

## THE ROLE OF THE FINANCE TEAM

The finance team can play a leading or supporting role in calculating the facilitated emissions baseline, leveraging their expertise in handling financial information. The finance team brings skills in interpreting guidance, setting up governance frameworks, analysing and reconciling data, establishing controls, and reporting.

When developing a facilitated emissions baseline, it is important to connect with other key stakeholders within your organization – such as sustainability, strategy, banking and risk teams – to understand how facilitated emissions can link into wider climate targets, transition plans, business strategy and forward-looking developments.

> **OTHER RESOURCES** – further practical actions that can be taken by finance teams on supporting their organization's net zero commitment can be found in our Net Zero Guidance. See the A4S Resources section of this guidance for practical case studies on how financial institutions are approaching financed, insurance-associated and facilitated emissions.

## THE PCAF STANDARD

The Partnership for Carbon Accounting Financials (PCAF), an industry-led partnership, was launched to harmonize global greenhouse gas (GHG) accounting methods and enable financial institutions to measure and disclose the GHG emissions associated with their financial activities consistently. In 2023 PCAF published its Global GHG Accounting and Reporting Standard for Capital Markets (Part B), offering a detailed methodology for measuring and reporting facilitated emissions.[8] The aim of the standard is to give a more transparent picture of the emissions associated with facilitation activities, enabling you to make more informed decisions.

The PCAF calculation approach for facilitated emissions is shown in Figure 1 and the key components of the calculation are explained in Table 1.

**Table 1: Components of the PCAF facilitated emissions calculation**

| Key | Description | Explanation |
|---|---|---|
| i | Facilitated amount | Defined as the product of the total amount raised and volume attributed to the financial institution (or league table credit).[9] |
| ii | Company value | For listed companies, this is the enterprise value including cash (EVIC). For unlisted companies, company value is calculated by adding together the total company equity and debt. |
| iii | Weighting factor | The responsibility the facilitator should take for the issuer's emissions. In the PCAF methodology, this weighting is 33%.[10] The PCAF Standard states, "Financial institutions may additionally report their facilitated emissions without weighting as long as this is reported separately, and the rationale is clearly disclosed – this would be in addition to reporting the 33% weighting, not instead of." |
| iv | Annual emissions | Facilitated emissions "shall be accounted for in the year the facilitation occurs, using the reported or estimated annual emissions of the issuer in that year". "This annual period is selected to be in line with other parts of the PCAF Standard." |

$$\textit{Facilitated emissions} = \sum_{c} \boxed{\frac{\overset{\text{i}}{\textit{Facilitated amount}_c}}{\underset{\text{ii}}{\textit{Company value}}}} \times \overset{\text{iii}}{\textit{Weighting factor}} \times \overset{\text{iv}}{\textit{Annual emissions}_c}$$

*(Faciliated amount = Total raised amount × League table credit)* *c = The issuing company* $\boxed{\phantom{x}}$ *= Attribution factor*

Figure 1: Facilitated emissions calculation (source: PCAF, Global GHG Accounting and Reporting Standard Part B, 2023)

8. Part B of the PCAF Standard covers facilitated emissions, building on other work by PCAF on financed emissions (Part A) and insurance-associated emissions (Part C). While Part B covers emissions associated with primary capital market issuance activities and loan syndication, and focuses on emissions generation, it does not cover unsold securities. The measurement and reporting of emission removal and avoided emissions are also currently outside the scope of Part B. More areas may be included in the future. The PCAF Standard conforms with the requirements of the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.
9. League tables rank financial institutions based on their total capital market activities, by summing up the credit allotted to each facilitator based on their role in an individual transaction. League tables can be based on fees or value of the volume. Financial institutions need to be transparent about which method they are using.
10. The 33% weighting aligns with the highest weighting of underwriting activities relative to balance sheet exposure as per the Basel Framework since this was first assessed in 2012.

## FACILITATED EMISSIONS VS FINANCED EMISSIONS

Facilitated emissions and financed emissions are fundamentally different, both in their nature and in the financial institution's role in the activity. These differences mean that PCAF requires that facilitated and financed emissions be reported separately.

Some of the main differences include:

- **The institution's role in the transaction** – facilitators provide an important service within the capital markets but do not directly lend to or invest in counterparties as lenders or investors do.
- **Presentation in the financial statements** – the facilitator does not reflect the finance associated with the facilitation transaction on its balance sheet (although it will report income from the facilitation fees), whereas for financed emissions, the lending and investment data required for calculating them will be reported in the financial institution's balance sheet.
- **Risk profile** – the risks (eg reputational, legal and credit) associated with financed and facilitated emissions are different.
- **Time period** – although some facilitators do have long-term relationships and recurrent business with counterparties, there is only a temporary association with the underlying transaction when it is being arranged or launched. Facilitation activities are typically completed within a period of weeks or days. Financed emissions transactions have a much longer association, as lenders and investors will often provide financing to counterparties for several years.
- **Level of stability** – capital market activities generally fluctuate more than lending and investment activities. In turn, facilitated emissions generally fluctuate more than financed emissions.

## DATA CHALLENGES

The data required for calculating emissions isn't as readily available, standardized or well controlled as financial data. Many of the data challenges for facilitated emissions are the same as those for financed emissions, including availability, type, quality, governance, consistency/comparability and timing. For more information on these challenges see the A4S Financed Emissions – Top Tips for Finance Teams of Financial Institutions.

However, there are some data challenges that are unique to facilitated emissions. These include:

- **Year-on-year data has limited comparability**, as issuances are typically only recognized in the year a transaction is facilitated and there is year-on-year volatility in capital market volumes. This can lead to large swings in reported emissions, which creates challenges for reporting against a baseline and for setting targets.
- **The timing of the issuance can lead to underestimated emissions**. For example, a capital market issuance may provide funding for a long-term project that is yet to be constructed, in which case emissions will be very low or zero at the time of the transaction. If the emissions are only calculated and reported at the point of issuance, they may not reflect the emissions that the project will generate during its lifetime.
- **League table credit data provided by third parties is limited** to lead managers and bookrunners and does not include co-managers.[11]
- **Facilitation data isn't as reliable or available as financial data**. As facilitated emissions transactions are off balance sheet, they are not necessarily covered by the robust reporting controls that are typically in place for financial statements data. This affects the reliability and availability of facilitated emissions data. The measuring and reporting of facilitated emissions data is also relatively new, so the data is not widely requested.
- **A financial institution may provide both lending and facilitation services to the counterparty**. Emissions of the counterparty would be reported in both the financed and facilitated emissions of the financial institution, highlighting the need to report financed and facilitated emissions separately.

The following top tips can help you to overcome some of these challenges.

11. Co-managers/lead managers are institutions that are brought into a deal by bookrunners but undertake smaller activities. Part B of the PCAF Standard is focused exclusively on the role of lead bookrunners, as their involvement in transactions is the most significant. Co-managers are not currently captured in the PCAF Standard.

# TOP TIPS FOR GETTING STARTED ON FACILITATED EMISSIONS

The following top tips are designed to help financial institutions get started on calculating a facilitated emissions baseline – with some extra tips specifically for finance teams. The finance team can leverage their existing processes and skills, including developing decision-useful management information, to progress your institution's approach to calculating a facilitated emissions baseline.

1

## ENSURE THAT YOUR BASELINE INFORMS YOUR TRANSITION PLANNING

Developing a baseline in isolation will not drive any meaningful change. Once developed, you should analyse your baseline to obtain insights that will guide your real-world decarbonization approach – that is, a baseline can be used to identify emissions hotspots. You should also use the baseline to set and track progress against targets and inform your implementation and engagement activities. The key is making sure that information gathered is used for decision making and steering.

**Finance team-specific tip:** Use your skill set to ensure robust data is collected and used to progress your transition plan, for example:

- Identifying emissions hotspots in your facilitation activities which will help you focus efforts on high-emissions activities
- Using the baseline information to establish targets
- Setting up processes for tracking and reporting progress internally towards the targets
- Ensuring that the data is used to drive decisions, eg by reporting progress regularly to decision makers and/or by linking to remuneration.
- Completing analysis to benchmark clients against a climate leader or a disruptive alternative

Further information on transforming your decisions to accomplish a net zero strategy can be found on page 16 of our Net Zero Guidance.

2

## APPLY THE PCAF STANDARD[12]

Part B of the PCAF Standard covers primarily capital market issuance activities and loan syndication, making these areas a good place to start. In applying these areas of the PCAF Standard, you can develop an understanding that will be helpful as the standard continues to develop into more areas. Applying a globally consistent methodology for calculating a baseline helps to prevent divergence in approach between different financial institutions.

**Finance team-specific tip:** You can position your team as subject matter experts on the PCAF Standard within your organization, drawing on your expertise in understanding and applying financial guidance and standards. PCAF also provides specific (online) training and accreditation opportunities for its signatories through the PCAF Academy.

12. If you are interested in joining PCAF, please visit http://www.carbonaccountingfinancials.com/join-pcaf

## MODEL ELEMENTS OF THE CALCULATION

Consider your preferred approach to the key components of the facilitated emissions calculation, as shown in the PCAF Standard formula in Figure 1.

**Finance team-specific tip:** You can use your data analytics skills to model different assumptions, quantifying the implications. You should make sure that any assumptions you use are clearly articulated in external reports.

### SELECTING CALCULATION ASSUMPTIONS

You will need to decide what assumptions to use as the basis for your calculation. Consider what will be most appropriate for your organization, using the following questions to guide you:

- **Scope – which facilitation activities will you include?**
  eg debt and equity market products, loan syndication, mergers and acquisitions.

  *PCAF covers primary capital market issuance activities and loan syndication.*
- **Time period – what time period will you consider?**
  eg will you use a single-year or multiyear approach to set a baseline.[13]

  *PCAF requires reporting emissions over a one-year period, the reporting year that is in line with the GHG Protocol.*
- **Data sources – what data will you use to calculate each counterparty's emissions?**
  eg, depending on the counterparty, economic activity-based emissions, physical activity-based emissions or company-reported emissions.

  *PCAF assigns the highest data quality score to company-reported emissions.*

## LEVERAGE YOUR EXISTING WORK ON FINANCED EMISSIONS

If you have already started work to calculate your financed emissions baseline, use these processes and data sources as a starting point for your facilitated emissions calculation. Although your lending clients may differ from facilitation clients, much of the third-party data needed for facilitated emissions is likely to be sourced from the same places as your financed emissions data.

If you don't have established financed emissions processes, your existing processes, controls and governance for financial information and/or risk controls can be used as a robust starting point for facilitated emissions information.

**Finance team-specific tip:** If you have led or been involved in your institution's financed emissions work, you can draw on what you have learned. For example, you may have already played a role in developing your institution's Pillar 3 report for financed emissions, climate transition plan or European Sustainability Reporting Standards (ESRS) statements. This can help inform and develop your approach to facilitated emissions. Similarly, if you hold the relationships with data providers for the financed emissions calculation, you can use these relationships to get facilitated emissions data too. You can also apply your skills in handling financial information and your in-depth knowledge of organizational processes to ensure that facilitated emissions information is subject to appropriate processes, controls and governance to allow confidence in the data.

## REFINE YOUR APPROACH

Within the areas you have determined to be in scope for your facilitated emissions calculation, consider initially focusing on sectors, specific clients or transactions that have high emissions and where the quality of data is good. Focusing on a smaller subset of your transactions to start with can enable you to establish and strengthen your processes, governance and controls before expanding to cover other areas.

**Finance team-specific tip:** Leveraging your data consolidation and analytical skills, you can help determine where to start your facilitated emissions calculation. For example, you could complete an analysis, based on estimates, on the sectors that have high emissions and use this analysis to narrow the scope to focus specifically on these sectors.

13. NZBA (2024), Target Setting for Capital Markets Activities

## DRAW ON THE RIGHT EXPERTISE

For a more effective process, make sure that the responsibility for calculating and measuring facilitated emissions is allocated to teams with a strong skill set for handling and analysing data. Connect with internal capital markets teams to understand what data they can provide, particularly data for calculating the total value of facilitation services. As capital facilitated is not typically shown on the balance sheet, engaging with this team is important.

**Establishing a cross-functional team**
It will likely also be useful to set up a cross-functional team with representatives from teams such as data analytics, finance, sustainability and capital markets.

Drawing on external expertise and peers' work in this space will help you refine your approach further. Some financial institutions are using external consultants to develop their approach and/or are collaborating with peers in industry groups. Your approach should be clearly and transparently disclosed.

**Finance team-specific tip:** You can apply your skills in establishing governance processes to set up a cross-functional working group with clear roles and responsibilities and work across the organization to gather the relevant information. You can also apply your skills in handling and analysing data and leverage any finance function networks to share and learn from peers.

## EMBRACE THE DATA CHALLENGE

The PCAF Standard offers different options to estimate facilitated emissions, acknowledging that emissions can be calculated using reported emissions, physical activity-based emissions or economic-activity-based emissions. PCAF assigns different data quality scores depending on the emissions data used and whether the data has been verified or not. The PCAF data quality scores range from 1 (highest data quality) to 5 (lowest data quality). The PCAF Standard also identifies potential sources of external data. Data limitations should not deter you from beginning to measure your facilitated emissions. You should, though, be transparent about the data challenges you've faced in your internal and external reporting. Many financial institutions publicly report their PCAF data quality score.

**Finance team-specific tip:** Using your skills in sourcing data and assessing it for validity and relevance, you can source the best-quality data available. You can also act as the gatekeeper for whether the quality of data is high enough to be included in external reporting. If you are part of a syndicated/shared transaction, there may be opportunity to collaborate with other facilitators and align efforts on data collection and verification.

## BUILD CAPACITY

Measuring facilitated emissions is a new approach, and not all colleagues will understand its importance. Regular knowledge-sharing and upskilling can help to address the gap. You can help build capacity by incorporating facilitated emissions into existing technical training, introducing new dedicated training, or providing regular touchpoints and status updates across your operating entities. Building capacity in the team that is undertaking the facilitation activities is important.

Building capacity by integrating the facilitated emissions data gathering and reporting into procedure manuals is also helpful to embed and standardize the approach.

**Finance team-specific tip:** You can contribute to work on upskilling colleagues by embedding information on facilitated emissions into standard continuous professional development within the finance team or by providing insights from the finance team in cross-department training. The finance team can draw on its existing skill set and play a key role in helping others to develop and implement appropriate procedures, as detailed in manuals, around facilitated emissions reporting.

## ITERATE AND IMPROVE YOUR BASELINE

Begin looking at the data and trying to calculate a baseline now. Your first attempt will not be perfect, but it does represent a crucial initial step – and provides a platform from which you can identify challenges and improve your approach. Even working with imperfect data will help you to refine your processes and procedures so that data quality can be improved over time. It's common to go through several iterations before a baseline can be reported externally, so starting early is essential.

**Finance team-specific tip:** Your internal audit team could assess the control environment for the baseline calculation. If you do not have an internal audit team, you can use different members of the finance team – not those involved in setting up the controls – to critique and test the rigour of the governance, processes and controls in place for establishing a facilitated emissions baseline and suggest improvements.

## 10 EXPAND AND DEVELOP YOUR APPROACH

This is an evolving area. Methodologies, including the PCAF methodology, are expanding and the quality of data is likely to improve. Stay aware of changing practices so that you can expand your own facilitated emissions calculation as needed.

Taking this approach means you can start calculating and disclosing emissions for some activities now and incorporate this information into decision making. You should be prepared to make adjustments as the guidance evolves.

**Finance team-specific tip:** You can leverage existing horizon-scanning processes to stay informed about the latest guidance from PCAF and others, ensuring that this is then fed into your organization's approach.

**HORIZON-SCANNING –** Information on what horizon-scanning is, ways of undertaking it and top tips for delivering it effectively can be found in our A4S Essential Guide to Managing Future Uncertainty.

## 11 COMMUNICATE YOUR APPROACH CLEARLY

Your initial baseline will likely only include certain sectors, clients or transactions, and data may be of variable quality. When reporting your baseline, communicate clearly – both internally and externally – about what is in and out of scope, as well as any challenges relating to the quality of the data.

**Finance team-specific tip:** You can use your reporting skills to guide internal communications and work with other teams, such as risk and legal teams, to determine how information should be communicated externally. You can report transparently on data quality and the data challenges that still need to be overcome in your external reporting. Finally, you can be the key contact during an external assurance of your facilitated emissions baseline.

# OTHER TYPES OF EMISSIONS

Accounting for facilitated and insurance-associated emissions is not yet as developed as it is for financed emissions. Many of the data challenges and steps needed to overcome these challenges are similar, though.

A4S has published guidance on calculating a baseline for financed emissions and insurance-associated emissions (see Table 2 for definitions). In recognition of the differences between financed, facilitated and insurance-associated emissions, the PCAF Standard recommends that they are each reported separately. For each, further guidance on how the different scopes should be reported can be found in the PCAF Standard.

**Table 2: Defining financed, facilitated and insurance-associated emissions for financial institutions[14]**

| Financial Institution Activities | | | |
|---|---|---|---|
| **Emissions accounting term** | Financed emissions | Facilitated emissions | Insurance-associated emissions |
| **Type of activity** | Lending and investment provided to clients, generating interest or dividend returns | Capital market facilitation services to clients for fees, eg as a bookrunner | Insurance and re/insurance services provided to clients for a premium |
| **PCAF definition** | Emissions that banks and investors finance through their loans and investments | Emissions associated with the issuance of capital market instruments | Emissions associated with re/insurance underwriting portfolios |
| **What should be measured** | Annual corporate accounting and disclosure of emissions at a fixed point in time and in line with financial accounting periods. The categories of emissions shown below should be reported separately. The financial institution accounts for its portion of emissions based on an attribution factor. | | |
| **Categories of emissions covered** | 1. Scope 1 and scope 2 emissions of borrowers and investees across all sectors | 1. Scope 1 and 2 emissions of issuers raising capital across all sectors | 1. Scope 1 and scope 2 emissions of the re/insured client or asset across all sectors |
| | 2. Scope 3 reporting for lending to and making investments in companies in certain sectors* | 2. Scope 3 for certain sectors* | 2. Scope 3 emissions to the extent that such numbers are available and represent reasonable and verifiable estimates |
| | 3. Emission removals** (listed equity and corporate bonds, business loans and unlisted equity, and project finance)*** | 3. Emissions removals**** | 3. Emission removals**** |
| | 4. Avoided emissions** (project finance)*** | 4. Avoided emissions**** | 4. Avoided emissions**** |

**Notes:**

*

| Phase-in period | NACE division sectors considered***** |
|---|---|
| For reports published in 2021 onwards | At least energy (oil & gas) and mining (ie NACE L2: 05–09, 19, 20) |
| For reports published in 2023 onwards | At least transportation, construction, buildings, materials and industrial activities (ie NACE L2: 10–18, 21–33, 41–43, 49–53, 81) |
| For reports published in 2025 onwards | Every sector |

** Where methodologies and data are available.

*** Methods provided in latest PCAF Standard.

**** Guidance not currently provided in PCAF Standard, so financial institutions are therefore advised to disclose their methodology.

***** NACE codes provide the statistical classification of economic activities in the European community.

14. The information included in this table is based on the PCAF Standard.

# A4S RESOURCES

## FACILITATED EMISSIONS

Barclays case study: Developing our Financed and Facilitated Emissions Methodology

## INSURANCE-ASSOCIATED EMISSIONS

Insurance-associated Emissions – Top Tips for Finance Teams of Financial Institutions

Webinar on insurance-associated emissions – the what, why and how in conversation with Allianz, Aviva and PCAF

Allianz case study: Setting a Baseline for Insurance-associated Emissions

## FINANCED EMISSIONS

Financed Emissions – Top Tips for Finance Teams of Financial Institutions

Lloyds Banking Group case study: Setting Sector-level Targets

ABN AMRO case study: Measuring, Reporting, Steering – Our Three-step Approach to Financed Emissions

NatWest Group case study: Reducing Financed Emissions to Meet Our Climate Ambition

Webinar on the role of finance professionals in accounting for financed emissions in conversation with Standard Chartered, First Rand Bank, NatWest Group and British International Investment

Webinar on the role of finance professionals in accounting for financed emissions in conversation with Amalgamated Bank, Citi and NatWest Group

Webinar on accounting for financed emissions in conversation with ABN AMRO, NatWest Group and PCAF

## TRANSITION PLANNING

Measuring and reducing scope 3 emissions forms part of transition planning for financial institutions and their clients. The guidance and case studies below provide more information on transition planning.

NatWest Group case study: Transition Planning

Transition planning webpage

SSE case study: Developing a Net Zero Transition Plan – Setting, Tracking and Reporting Targets

## NET ZERO GUIDANCE AND CASE STUDIES

Net zero webpage

Net Zero: A Practical Guide for Finance Teams of Banks

Net Zero Practical Examples

Net Zero: Pension Schemes Practical Examples

Net Zero: Top Tips for CFOs

Net Zero: Top Tips for Pension Scheme Trustees

## ESSENTIAL GUIDES

A4S Essential Guide to Incentivizing Action Along the Value Chain

A4S Essential Guide to Valuations and Climate Change

# EXTERNAL RESOURCES

GFANZ (2022), Recommendations and Guidance on Financial Institution Net-zero Transition Plans

NZBA (2024), Target Setting for Capital Markets Activities

PCAF (2022 and 2023), Global GHG Accounting and Reporting Standard for the Financial Industry

TPT (2024), Sector Deep Dive Guidance

# GLOSSARY AND ACRONYMS

| | |
|---|---|
| **Absolute emissions** | Volume of greenhouse gas (GHG) emissions expressed in tonnes CO2e. |
| **Attribution factor** | Share of the total annual GHG emissions from facilitated companies and activities associated with the relative share of the capital market issuances. |
| **Avoided emissions** | Avoided GHG emissions in the real economy, i.e., the difference between project and baseline emissions. |
| **Emission removals** | The action of removing GHG emissions from the atmosphere and store it through various means, such as in soils, trees, underground reservoirs, rocks, the ocean, and even products like concrete and carbon fiber. |
| **GHG** | Greenhouse gas |
| **NACE** | Nomenclature of Economic Activities |
| **Scope 1** | Direct GHG emissions that occur from sources owned or controlled by the reporting company, i.e. emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc. |
| **Scope 2** | Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated. |
| **Scope 3** | All other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions and downstream emissions. |
| | **Upstream emissions** include all emissions that occur in the life cycle of a material/product/service up to the point of sale by the producer, such as from the production or extraction of purchased materials. |
| | **Downstream emissions** include all emissions that occur as a consequence of the distribution, storage, use, and end-of-life treatment of the organization's products or services. |
| **Weighting factor** | Because of the distinct role facilitators play, PCAF includes a "weighting" factor to the facilitated emissions calculation to help distinguish between the two types of emissions – facilitated emissions and financed emissions – acknowledging that a unit of facilitated emissions is not equal to a unit of financed emissions (or insurance-associated emissions) given that no direct funding is provided by the financial institution to the company producing emissions in the real economy; combined with the very short-term role facilitators have in their roles as arrangers. |

All definitions are taken from the PCAF Standard.

# ABOUT A4S

A4S was established by HM King Charles III, when he was The Prince of Wales, in 2004 to make sustainable business, business as usual. We are part of the King Charles III Charitable Fund Group of Charities.

We work with the global finance and accounting community to:

- Inspire finance leaders to adopt sustainable and resilient business models
- Transform financial decision making to respond to the opportunities and risks posed by the climate crisis and other environmental and social issues
- Scale up action to transition to a sustainable economy

A4S leverages its global networks, including the CFO Leadership Network, Circles of Practice, Accounting Bodies Network and Asset Owners Network, to enable the finance and accounting community to take a leadership role on sustainability. Through our outreach activities and A4S Academy learning and implementation programme, we empower and equip finance and accounting teams to embed sustainability in their organizations.

## THE A4S ESSENTIAL GUIDE SERIES

### LEAD THE WAY

Developing a strategic response to macro sustainability trends

- Managing Future Uncertainty
- Engaging the Board and Executive Management
- Finance Culture
- Incentivizing Action

### TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Management Information
- Capex

### MEASURE WHAT MATTERS

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting
- Valuations and Climate Change

### ACCESS FINANCE

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance
- Implementing the TCFD Recommendations
- Implementing a Sustainable Finance Framework

Download the guides

# ACKNOWLEDGEMENTS

We would like to thank external parties for reviewing the top tips and for providing feedback.

- **Caspar Noach**, Technical Director, PCAF
- **James Vaccaro**, Chief Catalyst, Climate Safe Lending Network, CEO Repattern
- **Pablo Carvajal**, Director, Net Zero Transition, Climate Change and Sustainability Services, Financial Services, EY
- **Prabina Khanal**, Technical Assistance Lead, PCAF
- **Tjeerd Krumpelman**, Partner, Grant Thornton Impact House
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ACCOUNTING FOR SUSTAINABILITY

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