GREENHOUSE GAS (GHG) ACCOUNTING CASE STUDIES OF THE WORLD’S LEADING VALUES-BASED BANKS
RESEARCH QUESTIONS

CASE STUDY 1
Why measure financed emissions?

CASE STUDY 2
What challenges arise when adopting the Global GHG Accounting and Reporting Standard for the Financial Industry (PCAF Standard)?

CASE STUDY 3
What further actions has the adoption of the PCAF Standard triggered?

This research has been conducted as part of the CEMS Business Project in collaboration with the Global Alliance for Banking on Values and the London School of Economics (March 2021)
The Partnership for Carbon Accounting Financials (PCAF) has developed a harmonised approach to assessing GHG emissions of financial institution’s loans and investments (scope 3, category 15¹). This methodology, which is tailored to different asset classes, was published in the Global GHG Accounting and Reporting Standard for the Financial Industry (the PCAF Standard), as an important early step to help financial institutions to align with the Paris Climate Agreement. Reached in 2015 to strengthen the global response to the threat of climate change, the Paris Agreement highlights the importance of “making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions ².

An increasing number of financial institutions from around the world use the PCAF Standard, including early adopters from the Global Alliance for Banking on Values (GABV). As a result, there is an appetite among its users, and wider stakeholders, to learn from the experience of those that have gone before them.

Three independent case studies of values-based banks have been developed to support institutions considering, or already using the PCAF Standard so they can understand, and prepare to address, potential implementation challenges and respond to opportunities that assessments and disclosure create. What follows is a summary of the main findings of each of the case studies.

¹ Scope 3, category 15 emissions applies to investors and providers of financial services. For more information see GHG Protocol available here.
Why measure financed emissions?

This case study explores the main reasons why the four GABV members interviewed adopted the PCAF Standard.

The main motivation to measure and report GHG emissions of loans and investments is its alignment with an institution’s mission and values. Meaningful climate goals and a low carbon economy, which are directly linked to the mission and values of the values-based banks interviewed, require knowledge and understanding of the climate impact of financing decisions. PCAF assessments can further support engagement with clients which is a necessary step to reduce an institution’s financed emissions.

The decision to specifically adopt the PCAF Standard reflects the importance the interviewees attached to working with a globally recognised and accepted approach. This enables comparability between organisations.

The Standard’s coverage in terms of asset classes and its relevance for different business models and national contexts was also referenced as important motivations for adoption. Access to technical support from the PCAF and GABV Secretariats was also cited as lowering the bar to start and continue with the methodology.
What challenges arise when adopting the Global GHG Accounting and Reporting Standard for the Financial Industry (PCAF Standard)

This case study investigates the challenges and opportunities encountered when adopting the PCAF Standard. The interviews point to two distinct sets of challenges and associated responses: hard and soft.

**Hard challenges** are technical and mostly connected to the calculation process of financed emissions. They relate to data availability, data quality, bank data systems, and the PCAF Standard itself. Data availability and data quality were common challenges to all the financial institutions interviewed. Most also reported aligning their bank data systems to provide the information needed as a challenge. Only a few mentioned knowledge and understanding of the PCAF Standard as a challenge. The participating institutions address data availability challenges by finding additional data sources, making credible assumptions, and modifying existing calculations to reflect the requirements and recommendations of the PCAF Standard.

**Soft challenges** involve managerial or organisational matters such as resource capacity, language barriers, and a clear understanding of the process of implementation of the PCAF Standard. All banks interviewed experienced capacity challenges when implementing. Some of the banks further referenced a lack of clear guidelines on the process of implementation, especially how to get started and after an assessment has concluded. Some of the participating institutions increased capacity by hiring additional staff. One institution educated co-workers on financed emissions.
What further actions has the adoption of the PCAF Standard triggered?

This case study focuses on additional actions triggered by PCAF assessments. Four areas were focused on in particular: target setting, risk assessment and management, stakeholder engagement and product and service development. These four areas were chosen in accordance with previous PCAF reports, as well as coordination with experts at the PCAF Secretariat.

Participants in the case study note that target setting and risk management require granular quality data that is not readily available (as discussed in Case Study 2). Accordingly, most financial institutions at the time of writing either only monitored financed emissions or set targets for internal (scope 1 and 2) emissions, while taking steps to prepare to set financed emission targets in the future. Only one institution has publicly committed to net zero financed emissions of a select set of portfolios and products.

Notwithstanding data availability and quality issues, the financial institutions interviewed have engaged with their stakeholders after implementing the PCAF Standard. For example, they have targeted clients to reduce emissions or invited others to monitor emissions. Some respondents have also lobbied for improved access to quality data. There is widespread interest in the development of new products and services based on GHG emissions data. Some examples include tailored consulting on individual carbon footprint reduction projects, developing a carbon footprint calculator for small companies, and creating lending products which incentivize reducing emissions.
METHODOLOGY EMPLOYED

Research Questions
This set of three case studies has been part of a CEMS Business Project conducted to tackle the following questions:

• What are the main motivations to measure financed emissions and adopt the Global GHG Accounting and Reporting Standard for the Financial Industry?
• What challenges do the banks face implementing the Global GHG Accounting and Reporting Standard for the Financial Industry? How have financial institutions tackled these challenges?
• What further actions has the implementation of the Global GHG Accounting and Reporting Standard for the Financial Industry triggered?

The research questions required the following steps to be carried out separately for each case study:

Explorative Research
To allow for differentiated insight, a deductive methodological approach was followed.

To structure the questionnaires:
Thematic areas of interest within the respective case study scope were identified. Open-ended interview questions were developed to allow for broad insights while staying case study specific.

To select appropriate interview partners:
Financial Institutions were selected based primarily on the date they committed to measure and report the financed GHG emissions and how advanced in the implementation of the PCAF Standard they were (using expert judgement). Other criteria, including geographic location, business model, and size were used to allocate institutions to the different case studies.

Formal Research
Given the coronavirus pandemic and the location of participating financial institutions, interviews were conducted virtually allowing for as meaningful an exchange as possible.

Interviewers guided the interview in a semi-structured way using open-ended questions, while focusing on relevant topics as they emerged.

Data Analysis
Data was analysed in a two-step approach. First, the data was filtered and structured on a bank level using in-vivo coding. The information was then aggregated, triangulated, and interpreted at a case-study level.
ABOUT

Global Alliance for Banking on Values (GABV)

The Global Alliance for Banking on Values (GABV) is a progressive network of independent banks committed to a more transparent, resilient and sustainable banking sector. It is composed of 67 members banks operating in 40 countries across Europe, Asia, Africa, Australia, Latin America, North America and, and which represent a diverse range of banking institutions that model a transparent, inclusive approach to banking focused on financing the real economy. Learn more about the GABV here.

Partnerships for Carbon Accounting Financials (PCAF)

The Partnership for Carbon Accounting Financials (PCAF) is an industry-led initiative. Created in 2015 by Dutch financial institutions, PCAF extended to North America in 2018, and scaled up globally in 2019, including via the GABV’s Climate Change Commitment. Via its Global GHG Accounting and Reporting Standard for the Financial Industry, PCAF helps financial institutions assess and disclose the greenhouse gas (GHG) emissions from their loans and investments through GHG Accounting. Learn more about PCAF here.
ACKNOWLEDGMENTS

We would like to express our special thanks to different individuals who helped us to realize this project:

**Angélica Afanador** - Associate Director at Guidehouse, PCAF Program Manager and Europe & Latin America Teams Lead
**Dr. Christine Côté** - Academic Director CEMSMasters in International Management
**Dr. Adriana Kocornik-Mina** - GABV Senior Manager of Metrics and Research
**Cara Merusi** - Senior Consultant at Guidehouse, PCAF UK, Africa, Middle East Teams Lead
**James Niven** - GABV Chief Operations and Programme Officer

A special thanks to the organizations taking part in the three case studies:
ABOUT THE AUTHORS

This research has been conducted by Madeleine Heinrichs, Yiqiu Hong, Justine Husson Boaretto, Raphael Kessler, Priscilla Greggio and Ignacio Rojo as part of the CEMS Business Project during the 2021 Spring Semester at the London School of Economics and Political Science (LSE). CEMS is a Global Alliance of leading business schools, multinational companies and NGOs that together offer the CEMS Master in International Management.

Authors’ profiles

Madeleine Heinrichs is finishing her CEMS MSc in International Management at University of Cologne and at the London School of Economics. She has financial and strategic working experience in consulting, telecommunications and utilities. She volunteered in student organizations as AIESEC or Enactus.

Yiqiu Hong is currently finishing her MSc at HKUST Business School with an exchange term at the London School of Economics. Prior to that, she worked at IDG Capital (China office) as real estate private equity intern. She completed her Undergraduate Degree in UCLA, California.

Justine Husson Boaretto is concluding her CEMS MSc in International Management at Bocconi University and at the London School of Economics. Graduated with a BSc in Economics and Finance, she has previous experience in Asset Management and she has an interest towards Sustainability.

Raphael Kessler is concluding a double Degree in CEMS and Financial Economics at HEC Paris and at the London School of Economics. He has 4 years of practical experience, including international positions in banking and non-profit.

Priscilla Greggio is concluding her CEMS MSc in International Management at Bocconi University and at the London School of Economics. She has previous experience working in Non-profit organizations and in startups. She has an interest towards emerging markets, where she previously worked and studied.

Ignacio Rojo Bendix is finishing his CEMS MSc in International Management at Universidad Adolfo Ibáñez and London School of Economics. He has previous experience in finance in a retailer in South America. He wants to pursue a career in the financial industry.
WHY MEASURE FINANCED EMISSIONS?

Project Aim

- To understand the motivation to measure financed emissions
- To understand why institutions decided to adopt the Global GHG Accounting and Reporting Standard for the Financial Industry
SUMMARY

The Partnership for Carbon Accounting Financials (PCAF) has developed a harmonised approach to assessing GHG emissions of financial institution’s loans and investments (scope 3, category 15). This methodology, which is tailored to different asset classes, was published in the Global GHG Accounting and Reporting Standard for the Financial Industry (the PCAF Standard), as an important early step to help financial institutions to align with the Paris Climate Agreement. Reached in 2015 to strengthen the global response to the threat of climate change, the Paris Agreement highlights the importance of “making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions”.

An increasing number of financial institutions from around the world use the PCAF Standard, including early adopters from the Global Alliance for Banking on Values (GABV). As a result, there is an appetite among its users, and wider stakeholders, to learn from the experience of those that have gone before them.

This case study is one of a short series of three which aims to contribute to this learning. It investigates the main reasons for GABV members to measure financed emissions and use the PCAF Standard.

The case study found that measuring and reporting GHG emissions of loans and investments is recognised as a necessary step for financial institutions to understand their portfolio climate impact and achieve the goals set by the Paris Agreement.

Financial institutions reported different motivations to adopt the PCAF Standard, including global recognition of the methodology and the credibility that brings, its adaptability to different asset classes and national contexts, and the support and technical guidance of the PCAF Secretariat and GABV.

---

1 Scope 3, category 15 emissions applies to investors and providers of financial services. For more information see GHG Protocol available [here](#).
INTRODUCTION

The Paris Agreement recognised the financial sector has a key role to play to achieve necessary but ambitious climate-related goals. The goal of the agreement is to limit global warming to well below 2 degrees Celsius, and preferably to 1.5 degrees Celsius, compared to pre-industrial levels and to achieve a climate neutral world by mid-century. This requires deep decarbonisation in energy, urban environments, infrastructure, industrial and land use systems, and removing residual GHG emissions that prove difficult to reduce or avoid. A group of financial institutions under PCAF have developed asset class methodologies to assess and disclose greenhouse gas emissions for loans and investments (scope 3, category 15) to help realise these goals.

Banks from the GABV were interviewed to understand why institutions think it makes good business sense to measure financed emissions, and why the PCAF Standard should be adopted. The sample included institutions that have recently joined the GABV’s Climate Change Commitment (3C), as well as earlier 3C signatories. Geographic distribution was also considered as decisions to measure financed emissions might vary according to the different location of the interviewees.

---

4 The 3C relies on the PCAF methodology to measure and disclose scope 3 emissions. Scope 3 emissions are the result of activities from assets not controlled by the reporting organization, but that the organization indirectly impacts in its value chain.
CASE 1: Why measure financed emissions?

FINDINGS

Why measure financed missions?

Achieve a low carbon economy

Measuring and disclosing financed emissions was considered necessary to assess the climate impact of financial portfolios. For financial institutions, setting meaningful climate goals and contributing to a low carbon economy, requires having a clear understanding of the GHG emissions that are financed through their loans and investments.

Banks from the GABV were interviewed to understand why institutions think it makes good business sense to measure financed emissions, and why the PCAF Standard should be adopted. The sample included institutions that have recently joined the GABV’s Climate Change Commitment (3C), as well as earlier 3C signatories. Geographic distribution was also considered as decisions to measure financed emissions might vary according to the different location of the interviewees.

“Fighting climate change is on all banks’ agendas because banks have a major role in financing initiatives to combat climate change and to mitigate actions. Before we didn’t have (any information) on this, on the footprint of our loans and investments. PCAF is also a good tool to use, to at least get a baseline for what emissions we finance. In the end, we want to steer towards the low carbon economy, but you need to know where (you) want (to steer towards) first.”

Communicate with clients

A bank reported how measuring financed emissions also allows them to involve clients in the dialogue of reducing their carbon footprint. Measuring, accounting, and disclosing this information allows them to show clients how a financial institution, through its finance, can contribute to achieving a low carbon future.

“We believe that it is important for us to know the real impact that we are having on the planet. And for that, we are working to discover what is our real impact (from) the emissions coming from the credit portfolio”

“It is not only about measuring (emissions), but also (an opportunity) to involve clients in (a) conversation (so) others have insights into how (to) improve. It’s also for our stakeholders (to show) that it can be done, and it should be done in a comparable way so that we can (compare) financial institution against financial institution.”
### Why use the PCAF Standard?

#### Necessity to have a global standard

The financial institutions interviewed that are in developing countries reported the importance of the PCAF Standard as a global and established standard.

“We wanted to have a global standard and methodology so that it will have wider recognition and acceptance”

#### Coverage of different asset classes

The methodology is comprehensive and evolving. It is relevant for a breadth of different financial institutions from microfinance banks to large multi-national banks dealing with a range of asset classes (e.g., listed equity & corporate bonds, business loans and unlisted equity, project finance, mortgages, commercial real estate, and motor vehicle loans).

“The PCAF methodology takes into consideration different asset classes, and one of them (can be adapted for microfinance). This was very important to us because we are a bank specialised in microfinance. (The) PCAF (Standard) is available to different (parts) of the financial industry.”

#### Support and technical assistance

The support and technical assistance of the PCAF Secretariat and the GABV was reported as a reason why financial institutions started implementing the PCAF Standard.

“By being GABV members, we have access to different technical assistance... in this way we discovered the PCAF Standard to measure our financed emissions.”

“We are working together, and we are trying to see how we can really promote the whole PCAF Standard among Islamic bank financial institutions.”
CONCLUSIONS

All banks shared similar motivations to join the GABV but articulated this in different ways.

Despite the small sample of banks interviewed, measuring, and reporting financed emissions was generally recognized as being a crucial step to start the journey to achieve the Paris Climate Agreement goals. It is interesting to note that the rationale behind measuring and reporting GHG emissions did not change regardless of the banks’ business model, size, or location. All interviewees recognized that it is not possible to set clear goals without understanding the climate impact of their portfolios.

More varied reasons were given to adopt the PCAF Standard including that it covers different asset classes, has wider recognition, and offers access to technical support. Regardless of an institution’s size, portfolios, or location the decision to implement the PCAF Standard is related to the Standard’s strengths.
METHODOLOGY EMPLOYED

Research Questions
This set of three case studies has been part of a CEMS Business Project conducted to tackle the following questions:

• What are the main motivations to measure financed emissions and adopt the Global GHG Accounting and Reporting Standard for the Financial Industry?
• What challenges do the banks face implementing the Global GHG Accounting and Reporting Standard for the Financial Industry? How have financial institutions tackled these challenges?
• What further actions has the implementation of the Global GHG Accounting and Reporting Standard for the Financial Industry triggered?

The research questions required the following steps to be carried out separately for each case study:

Explorative Research
To allow for differentiated insight, a deductive methodological approach was followed.

To structure the questionnaires:
Thematic areas of interest within the respective case study scope were identified. Open-ended interview questions were developed to allow for broad insights while staying case study specific.

To select appropriate interview partners:
Financial Institutions were selected based primarily on the date they committed to measure and report the financed GHG emissions and how advanced in the implementation of the PCAF Standard they were (using expert judgement). Other criteria, including geographic location, business model, and size were used to allocate institutions to the different case studies.

Formal Research
Given the coronavirus pandemic and the location of participating financial institutions, interviews were conducted virtually allowing for as meaningful an exchange as possible.

Interviewers guided the interview in a semi-structured way using open-ended questions, while focusing on relevant topics as they emerged.

Data Analysis
Data was analysed in a two-step approach. First, the data was filtered and structured on a bank level using in-vivo coding. The information was then aggregated, triangulated, and interpreted at a case-study level.
WHAT CHALLENGES ARISE WHEN ADOPTING THE GLOBAL GHG ACCOUNTING AND REPORTING STANDARD FOR THE FINANCIAL INDUSTRY (PCAF STANDARD)?

Project Aim

- To provide evidence of the challenges that arise during the implementation process of Global GHG Accounting and Reporting Standard for the Financial Industry, from getting started, to execution and reporting
- To understand how financial institutions tackle these challenges
- To explore positive surprises, and key learnings, encountered in the implementation process
SUMMARY

The Partnership for Carbon Accounting Financials (PCAF) has developed a harmonised approach to assessing GHG emissions of financial institution’s loans and investments (scope 3, category 15 emissions). This methodology, which is tailored to different asset classes, was published in the Global GHG Accounting and Reporting Standard for the Financial Industry (the PCAF Standard), as an important early step to help financial institutions to align with the Paris Climate Agreement. Reached in 2015 to strengthen the global response to the threat of climate change, the Paris Agreement highlights the importance of “making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions”.

An increasing number of financial institutions from around the world use the PCAF Standard, including early adopters from the Global Alliance for Banking on Values (GABV). As a result, there is an appetite among its users, and wider stakeholders, to learn from the experience of those that have gone before them.

This case study provides the answers to these questions following interviews with five GABV members at different stages in the GHG accounting journey.

The interviews point to two distinct sets of challenges and associated responses: **hard and soft**.

**Hard challenges** are technical and mostly in connection with the calculation of financed GHG emissions. They relate to data availability, data quality, bank data systems, and the PCAF Standard itself. Data availability and data quality were common challenges to all the financial institutions interviewed. Most also reported as a challenge aligning their bank data systems to provide the information needed. Only a few mentioned knowledge and understanding of the PCAF Standard as a challenge.

The participating institutions reported addressing data availability challenges by finding additional data sources, making assumptions and modifying existing calculations to reflect the requirements and recommendations of the PCAF Standard.

**Soft challenges** are those involving managerial or organisational matters such as resource capacity, language barriers, and a clear understanding of the process of implementation of the PCAF Standard. All banks interviewed experienced capacity challenges when implementing the PCAF Standard. Some of the banks further referenced a lack of clear guidelines on the process of implementation, especially for getting started and after measuring financed emissions.

To address soft challenges some of the participating institutions increased capacity by hiring additional staff. One institution educated co-workers on financed emissions.

---

1 Scope 3, category 15 emissions applies to investors and providers of financial services. For more information see GHG Protocol available [here.](#)

It is important to note that measuring and disclosing financed emissions is a journey. It involves different phases and regular improvements to the implementation process within a financial institution. This case study focuses on the implementation and initial measurement of financed emissions. Common ways to solve hard challenges include finding additional data sources, making assumptions and adapting the existing/initial calculation process to the requirements and recommendations of the PCAF Standard.

Throughout the implementation of the PCAF Standard, all banks highlighted the importance of the support provided by the GABV and the PCAF Secretariats. This support included free technical assistance and exchanges with other banks that resulted in significant added value.

In addition, individual banks mentioned positive surprises such as the possibility and invitation to improve data quality over time, the use of the data on financed GHG emissions to inform strategy and increased awareness of climate-related issues within the participating institution. One institution also highlighted the relative technical simplicity of the PCAF Standard.
CASE 2: What challenges arise when adopting the PCAF Standard?

INTRODUCTION

Five GABV members were selected to conduct the research. Their stages of implementation of the PCAF Standard and their relative size according to assets and funds under management were used as criteria for a purposeful sample selection. Details on the sample can be found in the Methodology section (p. 12).

Financial institutions face different challenges when implementing the PCAF Standard that appear to vary according to their size and the stage of implementation. In their 2013 article “Determinants of sustainability reporting: a review of results, trends, theory, and opportunities in an expanding field of research” published in the Journal of Cleaner Production, Hahn and Kuhnen note that larger banks have advantages when dealing with problems such as capacity issues and data system problems, as they have more resources and lower marginal costs for improvements. The findings of this case study seem to support their conclusion.

According to the interviews conducted, it is more difficult for smaller banks to implement the PCAF Standard than for larger ones as they have relatively limited resources and insufficiently flexible processes. However, no significant differences were found in the challenges banks face at different stages of implementation of the PCAF Standard.

This exploratory research is valuable to gain a better understanding of the process of implementation of the PCAF Standard by a group of diverse financial institutions in terms of size, geographic location and asset classes. For institutions that have yet to implement the PCAF Standard, the case study provides a broad overview of the challenges that might arise, how they can be overcome and the value of implementing the PCAF Standard. For those institutions already implementing the PCAF Standard it examines ways to address a variety of challenges, including through the use of the web-based PCAF emission factors database. Finally, it points to areas of the PCAF Standard and support infrastructure that may still need to be improved.
RESULTS

1. CHALLENGES ENCOUNTERED DURING PCAF IMPLEMENTATION

**Data availability**

As actual data is not publicly available nor provided from banks’ clients, **banks instead need to make assumptions and use secondary data and average emission factors**.

**Capacity**

Banks **struggled with not having sufficient capacity to work on or improve disclosure of financed emissions, as well as in working with other units in their institutions**.

**Methodology**

The methodology is evolving, and certain areas are still being developed and integrated into the standard.

**Data quality**

Due to limited data and generalisations, **data quality is not as high, and emissions ten to be over- or underestimated**.

**Banks’ data system**

Current bank data systems have constraints that **limit them from capturing the data and performing the calculations required to measure financed emissions**.

**Clear guidelines**

At certain points in the process, especially at the **beginning and after completion of the calculation**, some banks **do not know how to proceed**.
CASE 2: What challenges arise when adopting the PCAF Standard?

FINDINGS

Hard challenges

Data availability

All banks experienced problems with data availability, both with client-side data and official public data, which increases the difficulty in calculating GHG emissions. Much of the data needed to calculate GHG emissions accurately is not collected from clients or is not available from accessible data sources. This concerns both the actual GHG emissions of a client, and attribution factors needed to make meaningful calculations. Attribution factors refer to the portion of a loan for which a bank is responsible. For microfinance institutions there are instances where the balance sheet of clients is unknown. Yet, the PCAF Standard offers an approach to measure financed emissions using economic activity data based on outstanding loan amounts only.

In the absence of primary data, many banks rely on alternative sources such as country-specific statistics or databases from academic journals which can provide a valid proxy but also have some limitations. Some banks use business specific codes (e.g. NAICS or ISIC) that provide emission factors for different industries as a proxy for their clients’ emissions. However, in the NAICS database, for example, there are many industries for which data can only be found at a generic level and some industries are missing entirely. In these cases, banks have to make assumptions and/or exclude these loans. For one bank, this meant excluding an asset class (sovereign bonds) as there were no publicly available data.

However, it is relevant to note that this is a general issue in the calculation of GHG emissions that is being addressed through the web-based PCAF emission factors database.

“We have much of our liquidity (in) Norwegian sovereign bonds. We didn’t manage to find data for them. We tried to contact the central bank. We looked in the official statistics for Norway. But we were not able to find data. ”

“There are some NAICS (codes) even at the highest level that are just completely missing. So there are entire industries that we know nothing about.”
**CASE 2: What challenges arise when adopting the PCAF Standard?**

**Data quality**

Due to limited data availability, banks have to make assumptions and generalisations, which leads to lower data quality and increases the likelihood of over or underestimating emissions. In particular, as GABV banks may finance clients with better than average environmental performance, the publicly available industry averages may overestimate actual financed emissions.

For example, one bank provides mortgages but only stores information about the quantity of houses it has financed, not their size and value, in its data system. In the absence of better quality data, the bank assumes that houses emit as much CO₂ as the average for houses in the region. By relying heavily on such rough approximations it is difficult to use the data to track reductions in emissions from the bank’s housing stock over time, and to make strategic decisions based on this information. To assess and improve the level of data quality, banks can use the data quality score provided in the PCAF Standard. Similar to data availability, this is a general problem in the calculation of financed GHG emissions that the PCAF Standard endeavours to address.

“We had to make some assumptions which means we will probably overestimate our emissions. Because we finance only organic and biodynamic farming - and do not have reliable data about emissions from these industries - it is difficult to measure improvements because we don’t really measure our own customers.”

**Bank data system**

Most banks stated that they have issues calculating emissions due to the limitations of their own data systems. Some of the banks’ data systems are not very flexible and cannot be easily adapted to measure financed emissions as it requires more and different information about the clients than normally collected. Smaller banks in particular have centrally standardised banking systems whose conversion to capture more information would require too many resources and excessive costs.

Some banks collect the information they need manually and do not store it in a database, leading to significant inefficiencies.

Some banks store data in different systems that are not compatible, making it difficult and time-consuming to combine relevant data.

“(Our) data system… wasn’t constructed with PCAF in mind. So the information in our data system is quite limited … When we find it… there’s no place to insert that kind of data.”

“We have data available in the company, but there are two systems which do not work together. So it’s hard to combine the data.”
CASE 2: What challenges arise when adopting the PCAF Standard?

**PCAF Standard**

Some banks report that they face challenges with the PCAF Standard because they finance asset classes that are relatively unusual and at the time of the interview are not included in the PCAF Standard. As PCAF was only developed a few years ago, and the global standard was only finalised in late 2020, the methodology has been both evolving and has some limitations in terms of coverage.

However, it was noted that if banks want to develop a methodology for a new asset class, a structure is in place to do so jointly with others. This demonstrates PCAF’s focus on collaboration and flexibility. It is expected that problems with the coverage of the methodology will gradually be solved as more banks join and more asset classes are included (e.g., consumer fintech loans).

“The methodology was being built as we went. So, I think there was an initial perception, even for me, that we need to wait.”

“One of the asset classes that could be helpful in the future is... consumer fintech loans, like small dollar lending... for $500 or $1,000 (and) credit building loans..... It’s a growing asset class, but I do think that there’s a movement within the PCAF Standard to allow for growth in different areas.”
CASE 2: What challenges arise when adopting the PCAF Standard?

Soft challenges

**Capacity**

All of the banks reported issues with insufficient capacity to work on or improve financed emissions assessments and disclosure, as well as in working with other departments in their institutions. Smaller institutions typically have fewer human and financial resources to draw on and more difficulties with capacity. In addition, data security issues arise when external consultants or interns are hired to perform calculations regardless of an organisation’s size.

As financed emissions disclosure is project-based and does not need to be carried out throughout the whole year, assessments can conflict with other priorities at busy times of the year. However, once implemented for the first time calculations can be repeated each year and the workload decreases.

“I think the commitment was always there that we want to disclose more of the CO2 emissions (but) capacity is already quite a big challenge for us.”

“(…) working with a third party, there’s obviously natural data security concerns that come up, being a bank.”

**Clear guidelines**

Some banks reported that they lacked clear guidance in the process of GHG emissions accounting and did not know how to proceed with it as a result. This occurred mainly when starting to implement the PCAF Standard and after completing and disclosing financed emissions. This is exacerbated for smaller banks because of the capacity limitations described above. Limited resources result in a demand for increased guidance.

For example, one bank stated that they simply did not know where to start with the calculation of their financed emissions, including which asset classes to address first or where to find the information they needed. This could be related to the small size and capacity of the bank. Another bank raised the issue of not being sure how to interpret financed emissions and what to do next with the results.

“We went home, and we didn’t really know where to start. So we started to think what could be the easiest thing to start (with)? What is the easiest thing to count?”

“Once we have this finalized (the) soft challenge is how do we implement this in the bank? How do we make this meaningful beyond the numbers?”
RESULTS

2. TACKLING CHALLENGES

The banks’ handling of these challenges can also be divided into measures for hard challenges (dealing with data quality and availability, and adaptations to the calculation process) and soft challenges (adding capacity and education). Banks mentioned support from the GABV and PCAF Secretariats as practical, positive ways to address both types of challenge.

**Adapt calculation process**
Banks changed calculation processes such as using **technologies like python** or **by choosing to start with another asset class than originally envisaged**.

**Dealing with data quality & availability**
Using new sources for data (e.g. asking from clients), reporting **using data quality scores and making assumptions**.

**GABV & PCAF support**
Support ranging from **exchange with other banks**, to **free technical support or assistance with questions and customised solutions**.

**Adding capacity**
Adding more capacity by **hiring e.g. an intern or permanent staff**.

**Education**
Educate employees about **financed emissions**.
CASE 2: What challenges arise when adopting the PCAF Standard?

FINDINGS

GABV & PCAF support

All of the banks highlighted the support they received during implementation of the PCAF Standard ranging from exchanges with other banks to technical support.

GABV banks receive free technical support from the PCAF Secretariat\(^1\), which helps to solve problems directly and is a source of further advice. Individual banks can benefit from tailored solutions to their problems and some have the opportunity to collaborate with other financial institutions in national or regional PCAF implementation teams. In addition, the GABV facilitates helpful exchanges between banks through various groups such as the Metrics Community of Practice members at a regional and global level. In them, banks can raise issues and benefit from other banks’ experiences, avoiding pitfalls and saving time and resources.

“I think that the key for me anyway was having free technical support from Navigant (now: Guidehouse), having (...the technical expert) on board (with whom) we were able to bounce questions off. (...the technical expert has been really good at giving me advice on how to use the PCAF database and how we can present the data.”

“Being part of a community (of financial institutions)... who are similarly working on this analysis where we can approach others casually...has been really helpful”

“They’re willing to accept our difficulties and customize a solution for our existing policies and frameworks. They’re willing to adapt their processes to the region.”

\(^1\) PCAF is supported by Guidehouse, a global consultancy firm specialized in energy, sustainability, risk, and compliance for the financial industry. Guidehouse serves as the Secretariat of PCAF, providing technical support to PCAF members in the development and implementation of the Global GHG Accounting and Reporting Standard for the Financial Industry.
Dealing with data quality and availability

All banks have developed different strategies to deal with data quality and availability issues. These involve using new data sources, adopting data quality scores and making informed assumptions. Distinctions between larger and smaller banks are evident. Smaller banks are mostly unable to change their processes and improve data quality as much as large banks due to capacity issues.

One way to find new data sources is to survey clients and develop questionnaires that provide data required to measure financed emissions. Banks also made informed assumptions for their calculations. They explored various sources of data outside the PCAF emissions factors database including country-level or industry-specific journals, to gather more accurate emission factors.

One bank highlighted the importance of PCAF data quality scoring. It enables banks to monitor the data quality of their financed emission disclosures and develop a meaningful baseline from which improvements can be made. A bank that had a pre-PCAF carbon accounting process assessed the data quality used in their calculations considering the PCAF data quality scores. This enabled the establishment of a baseline with a higher overall data quality score.

“We made quite a few broad generalizations. But we were able to fit these into the methodology where it made sense. [...] We’re clear in our report that (these calculations are) not as detailed as the other asset classes.”

“We will try to find solutions to add questions (about) energy production or their CO2 emissions to existing reports that they already fill in. So we don’t overburden our customers.”
CASE 2: What challenges arise when adopting the PCAF Standard?

**Adapt calculation process**

All banks faced the challenge of adapting and improving the calculation process based on their specific needs. Adjustments are made and creative ways developed to facilitate the calculation process. For example, one bank learned a new way to integrate technology. Instead of relying only on Excel to copy information into the banks’ core system, they now use Python, which leads to fewer errors.

Interviewees chose different approaches to how much of their financed emissions to calculate initially. Some advise to begin the first financed GHG emissions measurement with an asset class that is relatively manageable and then build to more complicated ones in the future.

Others suggest working on as many asset classes as possible. This can produce a comprehensive overview of the bank’s financed emissions with which to make better informed judgements about how to reduce them in the longer term. If calculations are proving difficult one bank recommends dividing them into small steps to reduce complexity without compromising the validity of results.

“We thought that it’s **better to start with something that we actually can manage**, than try to do something that’s very complicated.”

“It’s kind of hard to do one (asset class) without doing them all. Our recommendation is **do as many as you can upfront** while you’re in the project because to me they all fit together.”
3. POSITIVE SURPRISES DURING IMPLEMENTATION OF THE PCAF STANDARD

All banks mentioned the PCAF Secretariat and GABV support as a positive surprise. Other positive surprises were specific to the individual banks interviewed.

Support from the PCAF Secretariat and the GABV

Various elements of PCAF Secretariat and GABV support were highlighted such as the PCAF and GABV mindset and resources, peer to peer collaboration and user-friendliness of the PCAF emissions factors database to efficiently calculate emissions.

The PCAF Secretariat and the GABV encourage banks not to make ‘perfect the enemy of good’. They encourage participating banks to start with what is manageable and not to insist on flawless calculations and unrealistically high data quality scores. In addition, PCAF has fostered a helpful culture of cooperation over competition. At a practical level, calculations of financed emissions benefit from the PCAF database, and helpful documents and videos are provided.

“It’s encouraging that PCAF says that if the data quality is not the best, you should just start with disclosing data and then get better.”

“There’s a community of practice that’s built up around this work and everybody is very willing to help each other; it’s not like a competitive process”
Other positive surprises mentioned by individual banks:

**Data quality improvements**
- By scoring data quality and identifying ways to improve it, one bank was able to achieve higher data quality and be more transparent about its assessment.

**Strategic support**
- Calculating financed emissions helped one bank to monitor its progress to deliver a net zero strategy.

**Awareness of carbon emissions of different sectors**
- By looking at emission data from different sectors, one bank reported being more aware about its overall emissions and better equipped, as a result, to take steps to reduce them.

**PCAF Standard’s relative technical simplicity**
- One bank highlighted the simplicity of the PCAF Standard which they assumed would be more technical.
FINDINGS

Adding capacity

Most banks added capacity to handle calculations and disclosure of financed emissions. This can be in the form of an intern, a third party or another internal employee to support the whole process.

“I was lucky to have Laura on board as she was a summer intern ... It was great that we had a resource because for me it was difficult to allocate the block of time that was needed to onboard and get up to speed.”

Education

One of the banks cited education as a means to make the disclosure of financed emissions meaningful beyond numbers. The disclosures provided output on which the bank can build a programme linked to reducing carbon emissions. Through an education programme this institution wants to embed aspects of PCAF and GHG emissions accounting within the wider culture of the bank, enabling co-workers to incorporate these aspects in day-to-day activities.
CONCLUSIONS

In many cases, the responses revealed similarities between the challenges that each bank faced in the PCAF Standard implementation process. The main hard challenge is to obtain data; either real customer data or access to emission factors from public databases. When these are not available, a particular challenge is to establish reasonable assumptions and sufficient data quality based on proxies.

All banks faced capacity-related challenges when implementing the PCAF Standard. This is more difficult for small banks as they have relatively limited resources and insufficiently flexible processes. As a voluntary measure the implementation of the PCAF Standard alongside mandatory daily work can be challenging. Consequently, for some institutions it is worthwhile hiring a new employee or paying for external support.

All banks found ways to deal with these challenges by either drawing on PCAF Secretariat and GABV support, discovering new data sources, making credible assumptions, adding capacity and/or changing processes. The PCAF and GABV Secretariats support is one of the major benefits of adopting the PCAF Standard according to the banks interviewed. In addition, calculating financed emissions can help support a bank’s climate strategy and creates greater awareness of a bank’s financed emissions in general. In summary the interviewees felt PCAF has developed an easy to follow Standard which can be adapted to different banks.

There are several challenges that can arise when banks start calculating financed emissions. But with PCAF and GABV secretariats’ support and exchanges with other banks, these can be overcome; indeed even small banks with few resources were able to measure their financed emissions in a meaningful and credible way. Many challenges, such as data quality and availability are already being addressed, as the PCAF Standard develops. Banks that are unsure about implementing the PCAF Standard because of concerns about data quality and availability and/or resource and capacity constraints, can choose to start with a relatively simple asset class and then improve from this baseline. Measuring financed emissions has many advantages for banks, ultimately creating awareness about an institution’s financed emissions and contributing directly to the process of reducing financed emissions.
METHODOLOGY EMPLOYED

**Research Questions**

This set of three case studies has been part of a CEMS Business Project conducted to tackle the following questions:

- What are the main motivations to measure financed emissions and adopt the Global GHG Accounting and Reporting Standard for the Financial Industry?
- What challenges do the banks face implementing the Global GHG Accounting and Reporting Standard for the Financial Industry? How have financial institutions tackled these challenges?
- What further actions has the implementation of the Global GHG Accounting and Reporting Standard for the Financial Industry triggered?

The research questions required the following steps to be carried out separately for each case study:

**Explorative Research**

To allow for differentiated insight, a deductive methodological approach was followed.

**To structure the questionnaires:**
Thematic areas of interest within the respective case study scope were identified. Open-ended interview questions were developed to allow for broad insights while staying case study specific.

**To select appropriate interview partners:**
Financial Institutions were selected according to size (assets and funds under management) and how advanced in the implementation of the PCAF Standard they were (using expert judgement).
CASE 2: What challenges arise when adopting the PCAF Standard?

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Region</th>
<th>Co-workers</th>
<th>Assets and Funds under management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 1</td>
<td>Europe</td>
<td>16</td>
<td>127 USD million</td>
</tr>
<tr>
<td>Bank 2</td>
<td>North America</td>
<td>239</td>
<td>1,013 USD million</td>
</tr>
<tr>
<td>Bank 3</td>
<td>North America</td>
<td>235</td>
<td>1,132 USD million</td>
</tr>
<tr>
<td>Bank 4</td>
<td>Asia</td>
<td>7,085</td>
<td>4,365 USD million</td>
</tr>
<tr>
<td>Bank 5</td>
<td>Europe</td>
<td>201</td>
<td>4,593 USD million</td>
</tr>
</tbody>
</table>

**Formal Research**

Given the coronavirus pandemic and the location of participating financial institutions, interviews were conducted virtually allowing for as meaningful an exchange as possible.

Interviewers guided the interview in a semi-structured way using open-ended questions, while focusing on relevant topics as they emerged.

**Data Analysis**

The gathered data was then analysed in a two-step approach. First, the data was filtered and structured on a bank level using in-vivo coding. The information was then aggregated, triangulated and interpreted at a case-study level.
WHAT FURTHER ACTIONS HAS THE ADOPTION OF THE PCAF STANDARD TRIGGERED?

Project Aim

- Provide practical insights to other financial institutions on the impact of adopting the Global GHG Accounting and Reporting Standard for the Financial Industry
- Explore further actions it has triggered
- Focus on four areas of interest: target setting, risk management and assessment, stakeholder engagement, and product development
SUMMARY

The Partnership for Carbon Accounting Financials (PCAF) has developed a harmonised approach to assessing GHG emissions of financial institution’s loans and investments (scope 3, category 15\(^1\)). This methodology, which is tailored to different asset classes, was published in the Global GHG Accounting and Reporting Standard for the Financial Industry (the PCAF Standard), as an important early step to help financial institutions to align with the Paris Climate Agreement. Reached in 2015 to strengthen the global response to the threat of climate change, the Paris Agreement highlights the importance of “making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions\(^2\).

An increasing number of financial institutions from around the world use the PCAF Standard, including early adopters from the Global Alliance for Banking on Values (GABV). As a result, there is an appetite among its users, and wider stakeholders, to learn from the experience of those that have gone before them. This case study aims to contribute to this learning. PCAF was envisaged as an important early step to help financial institutions align with Paris Climate Agreement commitments. There is an interest, therefore, in exploring whether further actions happen once financial institutions implement the PCAF Standard. This case study investigates this.

\(^1\) Scope 3, category 15 emissions applies to investors and providers of financial services. For more information see GHG Protocol available [here](#).

The study focuses on four areas where measuring GHG emissions of loans and investments may have triggered further actions: target setting, risk assessment and management, stakeholder engagement and product and service development. These four areas were chosen in accordance with previous PCAF reports, as well as coordination with the PCAF Secretariat. Research was conducted via video-interviews with GABV members, all of whom are experienced users of the PCAF Standard, despite the Standard itself still being relatively new in the financial industry.

1. **Advanced target setting and risk management** frameworks rely on granular client data. Due to data availability and quality issues, most financial institutions currently only monitor their clients’ carbon emissions, without setting specific targets.

2. There are notable exceptions with several financial institutions already publicly committed to net zero financed emissions of selected portfolios, and others setting internal milestones. Targets referring to internal emissions are already common amongst GABV banks (scope 1 and 2).

3. Data issues have not limited progress on **stakeholder engagement**, including with clients. Interviewed organizations have taken several actions after implementing the PCAF Standard, including providing targeted support to help reduce individual client’s emissions, and lobbying for data harmonization and availability.

4. While financial institutions are interested in developing new products and services based on GHG emissions data, many new approaches are still to be developed. First examples of best practices are shared as part of this research.

Overall, the results should encourage other financial institutions to engage with stakeholders and invest in product and service development with respect to GHG emissions data. Furthermore, in the expectation of higher data quality in the medium term, more financial institutions will be able include GHG data in target setting and risk management.
INTRODUCTION

Financial institutions that are already further along the journey of PCAF Standard implementation can play a critical role providing examples of the importance of credible GHG emissions accounting and helping to support others in their efforts to transition to a low carbon economy. This includes sharing best practices on how to tackle the challenges they have encountered, positive effects and changes prompted by using the methodology, as well as specific actions triggered by implementing the PCAF Standard.

Five GABV members, all of whom are signatories to the GABV’s Climate Change Commitment were selected to explore the research question. They were chosen because they are relatively advanced in implementing the PCAF Standard. In addition, they have taken action in the four areas discussed (target setting, risk management, stakeholder engagement and product development) as evidenced by reported actions in annual reports and on corporate websites.
INSIGHTS

Comparing the responses across the financial institutions interviewed, the following general insights can be drawn:

1. TARGET SETTING

- Effective GHG emissions data integration in target setting processes requires both broad and granular data. Most of the interviewed banks don’t have this yet. To improve this, banks are considering integrating GHG emissions data in their wider data monitoring work.

- Further actions vary between banks. Examples include interim target setting, using the financed emissions data to set targets via the sectoral decarbonisation approach described in the Science-Based Targets initiative (SBTi) framework, or setting carbon targets using the XDC methodology.

- “We’re still in a low stage of maturity... but there’s also a learning curve. We keep getting better and more efficient on the data*. So now is really the right time to set those targets.”

- “SBTi is (a) sort of gold standard for validating targets. I think for smaller institutions, particularly those within the GABV, (...) you actually already sort of formally use SBTi. SBTi is more oriented towards the larger global financial players, but we’re choosing to do it because we think it is the right thing to do.”

Target setting activities prompted by using PCAF

- Developing interim targets (including net zero financed emissions)
- Monitoring and assessing progress towards them and the effectiveness of individual initiatives to achieve these targets
- Increasingly granular target setting across industries, asset classes, etc
- Taking on leadership roles to develop PCAF in terms of broader data applicability for target setting
- Further specifying targets by integrating PCAF with frameworks like SBTi.

---

1 The pie chart relates to how many of the banks interviewed mentioned actions triggered by adopting the PCAF Standard in the respective area. Here, only one of the five banks interviewed already uses financed GHG emissions for target setting.
2. RISK ASSESSMENT AND MANAGEMENT

Effective financed GHG emissions data integration in risk assessment and management processes requires both broad and granular data. The implementation of these processes is influenced by both banks’ previous adoption of risk assessment frameworks and their GHG emissions data quality.

Therefore, most of the interviewed banks had not yet linked risk management processes to the implementation of the PCAF Standard. However, financial institutions at a more advanced stage of assessing their financed GHG emissions had already started integrating GHG emissions data into the TCFD risk assessment framework as described below.

“(…) in risk assessment ... we still haven’t included (GHG emissions data), as we want to get more granular data first.”

“We look at TCFD as well, (...) PCAF perfectly fits the framework and gives you a broader approach for climate risk assessments”

Risk assessment and management activities prompted by using PCAF

- Adapting the composition of portfolios to lower climate related risk exposure
- Supporting clients to identify climate transition risks given that certain sectors are highly exposed to them and helping them to transition to a low carbon economy. This needs to be done without losing sight of a bank’s mission. Interviewees noted that some highly emitting sectors, like agriculture, are vital for our society, so simply disinvesting to achieve financed emission goals would not be an appropriate action
- Integrating PCAF into the TCFD framework. Founded by the Financial Stability Board (FSB), TCFD sets a general framework for climate related finance risk measuring and disclosure. Integrating the emissions data derived from the implementation of the PCAF Standard not only allows for higher data granularity but also consistency in TCFD implementation.

2 The Task-Force on Climate-related Financial Disclosure (TCFD) is an internationally-recognised approach to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors to provide information to stakeholders.
CASE 3: What challenges arise when adopting the PCAF Standard?

3. STAKEHOLDER ENGAGEMENT

**Client engagement**

- Despite the challenges of GHG emissions data quality and availability, all banks interviewed actively engage with their clients to report data and improve their carbon performance using PCAF assessments.

  “(The availability of GHG emissions data) triggered the first conversation with clients and helped to engage with them”

  “(We are) able to give advice on how a company can transform or can be part of the transformation that we need”

  “We have pushed clients to start monitoring their footprint”

**Other external stakeholders**

- The degree and extent of interviewees advocacy efforts depends on their stage of advancement in measuring financed emissions and on time capacity.

  Institutions at an advanced stage of implementing the PCAF Standard are in dialogue with policy makers, regulators, and other financial institutions to accelerate the adoption of the PCAF Standard, achieve harmonization and help deliver a net zero future.

  Time capacity constraints influence the degree of advocacy conducted. Despite being advanced in the implementation of the PCAF Standard, some financial institutions have reported that they are currently only focusing on engagement with their own clients and/or on progressing on their internal targets. Only in a second stage they expect to engage with other stakeholders.

  “(We are) engaged with other financial institutions ... policy makers in the US ... advocacy groups ... looking at both disclosures and alignment and how to take on key sectors that are high carbon.”

  “(There is an) opportunity to ... get ahead from a policy/regulatory perspective.”

  “We are very much in contact with different actors, but at the moment it’s a... capacity (issue). And we need to do our homework before we can share but sharing (our work) when (its) developed is one of our main targets.”
CASE 3: What challenges arise when adopting the PCAF Standard?

Internal stakeholder engagement

Two banks in the sample mentioned engaging with climate-related efforts at all levels of the organization. When thinking where in the institution to place this work one institution targeted in particular all data teams.

That only some institutions referenced internal stakeholder engagement may reflect the fact that sustainability is integrated in all aspects of values-based banks’ work as a matter of course and so not considered worthy of special note, or that particular institutions have a stronger social focus.

“We’ve had a lot of engagement through our employees, our board, senior management. There’s a high degree of awareness relatively about what we’re doing on climate.”

“It has triggered questions and discussion with relationship managers on what they can do to reduce our footprint.”

Risk assessment and management activities prompted by using PCAF

Transition
• Initiating a dialogue with clients and internal stakeholders on monitoring and reducing emissions
• Providing support to clients to ensure a feasible science-based action-plan to address their climate risks.

Data
• Advocating for data harmonization with external stakeholders
• Suggesting the creation of data partnerships or open data platforms with other players interested in them (i.e., in the public sector).

Leading by example
Act as role model to show other financial institutions that it is possible to measure emissions, and the benefits of doing so, and try to influence them to do the same.
4. PRODUCT DEVELOPMENT

All banks in the sample reported interest in developing new banking products, based on financed GHG emissions data. All but one had either started or had already developed them.

Examples of practices in product development

Incentivised lending
- To incentivise clients to share data or take measurable action, incentives like reduced rates or cost-reimbursements (e.g., for energy assessments) linked to improved environmental performance are already in place or under consideration.

Consulting services
- Consulting services on individual carbon footprint transformation projects.

New measurement tools
- Carbon Footprint Calculator made available to small companies to calculate their Carbon Footprint
- An Impact Transparency tool, tailored for banks to integrate carbon data into the core banking data systems, facilitating evaluations (e.g., X-Degree Compatibility results).

New credit card
- Enviro Infinite card is a Visa card where all profits are reinvested in environmentally friendly initiatives evaluated using the PCAF Standard.
Interviewees confirmed that joining the Climate Change Commitment and implementing the PCAF Standard is part of a broader effort to achieve the Paris Agreement goals. This is a logical extension of a values-based bank’s approach, which focuses on financing sustainable businesses or those in transition to sustainable models. For the same reason, many values-based banks already have climate friendly products and services in place.

Adopting the PCAF Standard builds on these foundations. How quickly and how often the implementation of the PCAF Standard triggers new actions is especially influenced by data quality and availability. To improve both, the banks interviewed have actively engaged external stakeholders. This includes authorities also interested in GHG emissions-related data such as city administrations, as well as other financial institutions, often acting within PCAF national or regional ‘chapters’, who jointly improve data sources and calculation methods.

Once granular financed GHG emissions data become readily available, interviewed banks will use them more broadly in target setting, risk management and product development. Until now financial institutions have generally limited their risk assessment and target setting efforts, given a lack of granularity in GHG emissions data. Still, some individual institutions have already committed to GHG emissions targets like net zero financed emissions and milestones along the way.

Concerning risk assessment, GHG emissions data inclusion is mostly being discussed in relation to the assessment of physical risk, given the interviewed banks’ low exposure to transition risk. Furthermore, integration of GHG emissions data into target setting and risk management frameworks is considered and partly already in progress. Interviewed banks are also already actively developing new products like incentivized lending or consulting for their clients as well as thinking of integrating emissions data into existing products.

While the PCAF Standard is still relatively new, its adoption is increasing rapidly across the globe. This, together with the financial industry’s growing focus on their environmental responsibilities, means it is fair to expect new applications of GHG emissions data to product development to emerge in the medium term.
METHODOLOGY EMPLOYED

Research Questions

This set of three case studies has been part of a CEMS Business Project conducted to tackle the following questions:

• What are the main motivations to measure financed emissions and adopt the Global GHG Accounting and Reporting Standard for the Financial Industry?
• What challenges do the banks face implementing the Global GHG Accounting and Reporting Standard for the Financial Industry? How have financial institutions tackled these challenges?
• What further actions has the implementation of the Global GHG Accounting and Reporting Standard for the Financial Industry triggered?

The research questions required the following steps to be carried out separately for each case study:

Explorative Research

To allow for differentiated insight, a deductive methodological approach was followed.

To structure the questionnaires:
Thematic areas of interest within the respective case study scope were identified. Open-ended interview questions were developed to allow for broad insights while staying case study specific.

To select appropriate interview partners:
Financial Institutions were selected based on how advanced in the implementation of the PCAF Standard they were (using expert judgement) and reported acting according to published reports in the 4 respective areas of target setting, risk management, stakeholder engagement and product development. Emphasis was given to diversity of actions across the sample selection to deliver a broad set of best practises.
Target setting – Developing financed emissions goals

- At what implementation state did PCAF trigger discussion on introducing/adapting financed emission goals in alignment with the Paris Agreement?
- How long did it take until the first measures were taken?
- How has PCAF been helpful in this target/goal setting process?
- How has PCAF been helpful in the monitoring of its progress?
  - E.g. as a basis for tools like SBTI, or complementary to TBIA, net zero targets

Risk assessment and management

- At what implementation state did PCAF trigger discussion on climate transition risk management?
- How long did it take until first measures were taken?
- How has PCAF been helpful in assessing and managing said risks?
- What further measures are being considered/currently implemented?
  - E.g. spotting climate transition risks

Internal & External stakeholder engagements

- At what implementation state did PCAF trigger discussion on further stakeholder engagements?
- How long did it take until the first measures were taken?
- What was their purpose?

What has been achieved?

- E.g. internal: in-house CO2 accounting of operations
- E.g. external: taking part in advisory councils, campaigns; relation with community, suppliers, NGOs...

Development of new banking products/services

- At what implementation state did PCAF trigger discussion on innovative low-carbon products to its clients?
- How long did it take until these opportunities were acted upon?
  - E.g. Fossil Fuel Free Portfolio investment options.
- What other effects did PCAF have on the customer relationship?
  - E.g. Positioning, Communication, transition of client portfolios...

Formal Research

Given the coronavirus pandemic and the location of participating financial institutions, interviews were conducted virtually allowing for as meaningful an exchange as possible.

Interviewers guided the interview in a semi-structured way using open-ended questions, while focusing on relevant topics as they emerged.

Data Analysis

Data was analysed in a two-step approach. First, the data was filtered and structured on a bank level using in-vivo coding. The information was then aggregated, triangulated, and interpreted at a case-study level.