



GHG Protocol Financial Sector Guidance

Summary of online survey results

January 2013

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Executive Summary

GHG Protocol and UNEP Finance Initiative have partnered to investigate whether to develop new guidance for the financial sector on accounting for greenhouse gas (GHG) emissions associated with lending and investing (“financed emissions”). The guidance would be a sector-specific supplement to the GHG Protocol Corporate Value Chain (Scope 3) Standard. An online survey was conducted to assist in establishing the need for developing guidance on accounting for financed emissions and to gain insight into what the content of the new guidance should be, if it were to be developed. Over 100 stakeholders from a broad range of organizations and regions completed the survey.

The survey results indicate that there is broad interest in better understanding, measuring and managing financed emissions. There is also broad interest in the availability of a standardized methodology for measuring and reporting financed emissions, but many financial institutions are concerned about complexity and the cost-benefit ratio. Corporate responsibility and risk management were identified as the key drivers to measure financed emissions, although complexity and cost-benefit of measuring emissions varies depending on the financing/investment activity. The results also indicate that project finance and corporate finance are the highest priority for private and public banks, whereas public equity investments and corporate fixed income (bonds) investments are the highest priority for investors.

1. Introduction

In mid-2012, GHG Protocol partnered with UNEP FI to investigate whether to develop new GHG accounting guidance for the financial sector as a supplement to the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. New guidance would be intended to further assist financial institutions to evaluate and communicate the greenhouse gas emissions associated with their lending and investments.

As a first step in the scoping phase, interested stakeholders were invited to participate in an online survey to assist in assess the need and content of new guidance. The survey was open to any interested parties and a link to the survey was posted on the GHG Protocol website. In addition to posting the survey on the GHG Protocol website, invitations to participate in the survey were sent to all UNEP FI members, as well as a number of GHG Protocol contacts. The survey ran from October to November 2012. This document provides a summary of the responses received. See page 13 for a list of organizations that responded.

In addition to the online survey, two scoping workshops are being held to gain in-person feedback and discuss the issues raised in the survey. The first of these scoping workshops was held in London on December 19, 2012. Another workshop is planned for New York in late February 2013. Summaries of these workshops will be published separately on the [GHG Protocol website](#) once they have been completed.

2. Background

Acting as market makers, capital providers, and advisers, financial institutions and portfolio investors (FIs and PIs) are important actors in the shift to a low-carbon economy. Many FIs and PIs now report scope 1 and scope 2 emissions, however, this says little about the full climate change impact of their business since the more significant portion of emissions associated with financial institutions is generated by the companies and projects they finance and invest in (“financed emissions”).

In the move towards a low-carbon economy, the ability for FIs and PIs to measure and manage financed emissions needs to be enhanced. The GHG Protocol Corporate Value Chain (Scope 3) Standard does provide a framework for reporting value chain emissions, including emissions from investments. However, the guidance provided is high-level and supplementary guidance may be needed to enable financial institutions and portfolio investors to report accurately, consistently, completely, relevantly and transparently on the impacts from their investments.

As risk management experts, it is critical that FIs have the necessary tools to consider the implications of continued investment in, and financing of, carbon intensive sectors and companies. Some FIs have developed their own methodologies to account for financed emissions but there is a lack of an internationally consistent approach.

GHG Protocol has partnered with UNEP FI to explore the need for financial sector GHG accounting guidance. An online survey was conducted to assist in establishing the need for developing guidance on accounting for financed emissions and to gain insight into what the content of the new guidance should be, if it were to be developed. The survey was conducted in October and November 2012 and ran for five weeks. 107 stakeholders completed the survey.

3. Who responded to the survey?

The survey was completed by stakeholders from a variety of organizations within the financial sector and other stakeholders not directly working for a financial institution, but with interest in this topic including consultants, NGOs and governments. Chart 1 shows the breakdown of respondents by organization type. Just over half (57) of the respondents were from financial sector organizations, mostly commercial banks, also state banks, development banks, export-import banks, asset managers, pension funds, insurance companies and investment advisors (see the green segments of chart 1). The remaining 43 respondents were other interested stakeholders from non-governmental organizations (NGOs), consultancies, government, academia, data providers, and others (see the purple segments of chart 1).

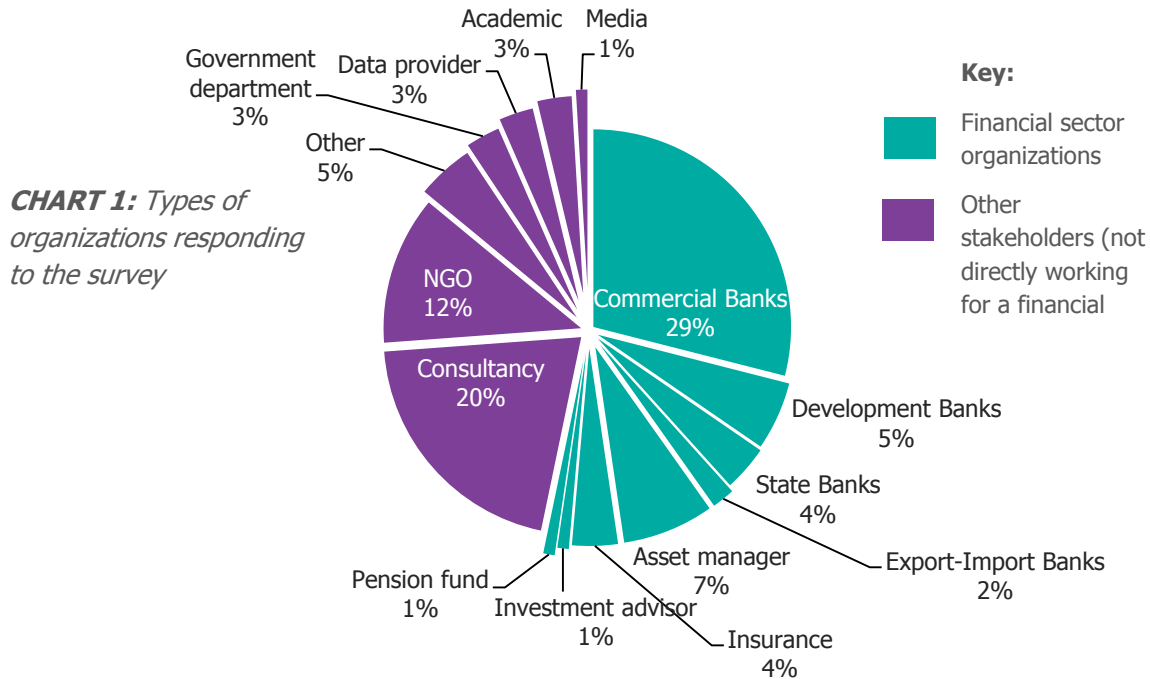
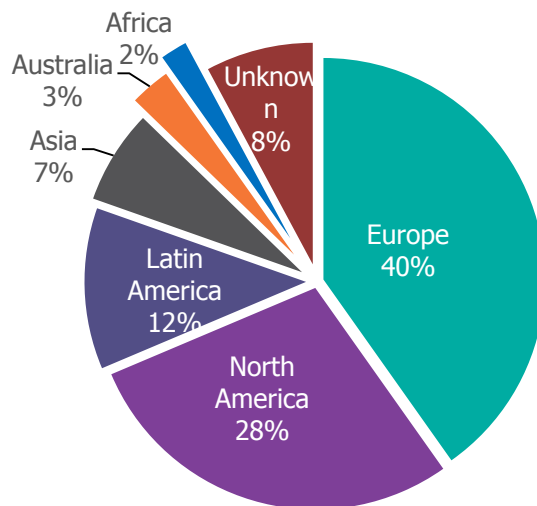


CHART 2: Geographic breakdown of respondents

The respondents were also from a range of different geographic regions (see chart 2). There were more respondents from Europe and North America compared to other regions.



4. Two key questions

The survey asked two key questions about the importance of measuring financed emissions and about the need for standardized guidance to be developed. These two key questions were phrased as follows:

- **Key question 1:** Do you perceive the measuring and reporting of emissions associated with lending and investments ("financed emissions") to be an important business issue?
- **Key question 2:** Do you think there is a significant and long-term need for standardized methodologies/guidance for measuring financed emissions and tracking emissions reductions over time?

Respondents were also asked to explain the reasons for their answers. These two key questions, and the reasons given for the answers, help to assess the general importance of this issue and the need for standardized methodologies and guidance to be developed as perceived by various different groups of stakeholders. The results are described below. The results are shown for all respondents first, and then subsets of respondents are also looked at individually (e.g., investors only, or commercial banks only) in order to show trends in responses from particular groups.

4.1 All respondents' answers to the two key questions

75% of all respondents perceive the measuring and reporting of financed emissions to be an important business issue (see chart 3), and 81% of all respondents think there is a significant and long term need for standardized guidance/methodologies (see chart 4). "No" responses to key question 1 and key question 2 were 10% and 9% respectively.

CHART 3: Key question 1 (All respondents) – *Is measuring and reporting emissions associated with lending and investments an important business issue?*

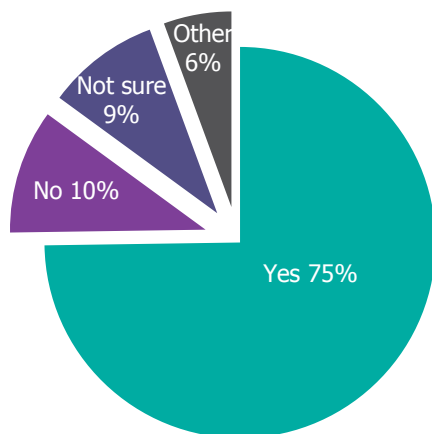
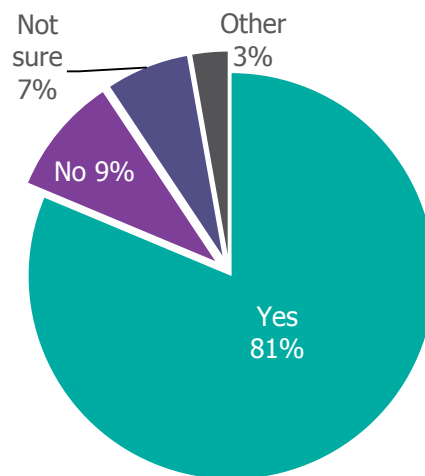


CHART 4: Key question 2 (All respondents) – *Is there a significant and long-term need for standardized methodologies/guidance for measuring financed emissions?*

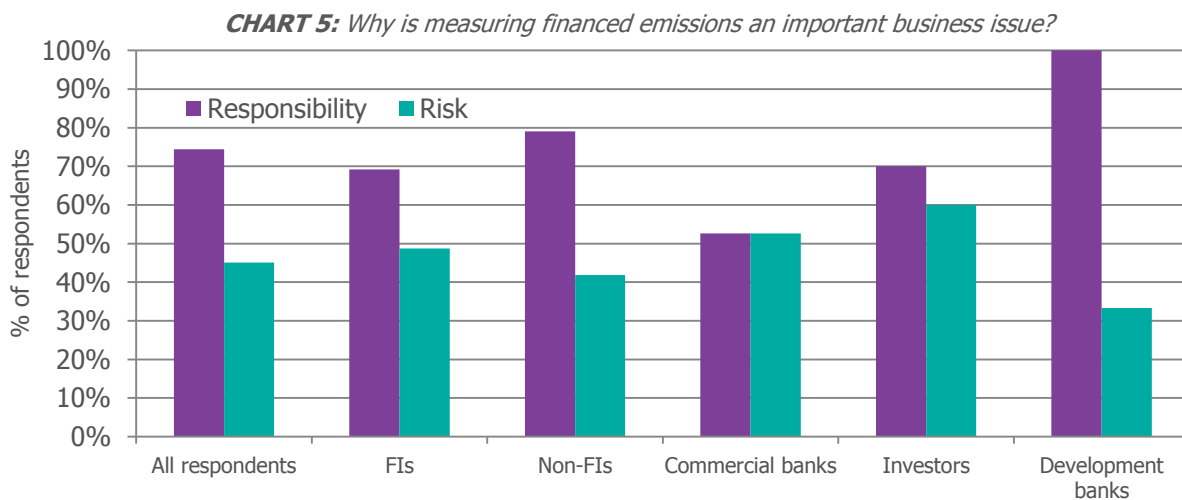


This indicates that there is broad interest in better understanding, measuring and managing financed emissions. In addition, respondents were asked to give reasons for their chosen answers to the two key questions. Reasons why respondents said this is an important business issue and that there is a need for guidance included:

- Risk management
- To identify business opportunities and GHG reduction opportunities
- To facilitate target setting/track reductions
- To enhance accountability/transparency (and reputation)
- To enable comparability/benchmarking
- To harmonize proliferating methodologies
- To harmonize information requested of investees/borrowers
- To increase reliability/credibility of the methods
- To assist those financial institutions that are undertaking this complex task
- To prevent “greenwashing”

The main reasons given for why measuring financed emissions is an important business issue can broadly be grouped into two themes – risk management and corporate responsibility. Those respondents who stated that measuring financed emissions would enable FIs to reduce emissions or be more transparent and accountable were regarded as being under the theme of responsibility. Chart 5 below shows how different groups of stakeholders differ in their view of the importance of the two goals of measuring financed emissions. The percentages are based on the number of respondents that answered “yes” to whether financed emissions are an important business issue. Three quarters of respondents mentioned the theme of responsibility in their reasoning for why measuring financed emissions was an important business issue (55% mentioned only responsibility and 20% mentioned both responsibility and risk). 45% of respondents mentioned risk in their answer (25% mentioned only risk and 20% mentioned both risk and responsibility).

Amongst FIs responsibility was slightly less dominant as an answer, with responsibility and risk being mentioned by 70% and 50% of respondents respectively. Responsibility was more prevalent than risk management as a reason for most groups, except for commercial banks, where the split between risk and responsibility was even. The investors had the highest rate of responses that cited risk management as a reason for measuring financed emissions. All respondents from development banks regarded responsibility as a driver for measuring financed emissions, but a third of them also said that risk management was a driver too.



One in ten of the respondents did not regard financed emission as an important business issue, and did not think there was significant need for standardized methodologies/guidance. Their reasons included:

- Emissions should be measured and managed at source, not by lenders/investors
- Measuring financed emissions is prohibitively complex and time-intensive
- No link established between measuring financed emissions and risk assessment frameworks
- Financial institutions should focus on other, more useful risk assessments and policies
- Financial institutions should focus on advising clients on more substantive strategies to reduce emissions.

4.2 Financial institutions' answers to the two key questions

If looking only at the respondents working for financial institutions (FIs)¹, approximately two thirds of respondents said they perceive the measuring and reporting of emissions associated with lending and investments to be an important business issue (see chart 6), and almost three quarters of FI respondents think there is a significant and long-term need for standardized methodologies/guidance for measuring financed emissions.

CHART 6: FIs only – Is measuring and reporting emissions associated with lending and investments an important business issue?

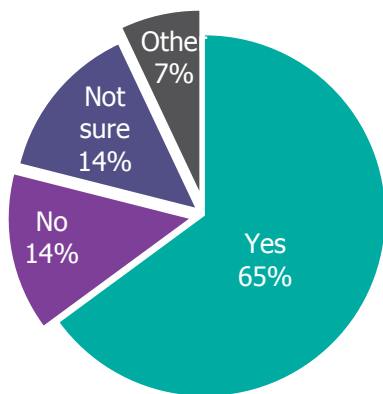
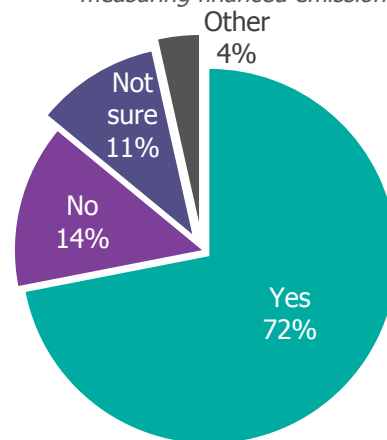


CHART 7: FIs only – Is there a significant and long-term need for standardized methodologies/guidance for measuring financed emissions?



4.3 Commercial banks' answers to the two key questions

31 commercial banks responded to the survey (representing 29% of all respondents – the largest single subset of respondents). The rate of “yes” responses to the two key questions was lower than the average of all respondents (see charts 8 and 9 below), but still over half of the respondents perceive the measuring of financed emissions to be an important business issue and over 60% think there is a need for standardized methodologies/guidance. Approximately a quarter of commercial bank respondents answered “no” to these two key questions (7 out of 31 and 8 out of 31 for questions 1 and 2 respectively).

¹ For the purposes of this report, “financial institutions” includes all types of banks as well as investors (i.e., all the organization types colored green in chart 1).

CHART 8: Commercial banks only – Is measuring and reporting emissions associated with lending and investments an important business issue?

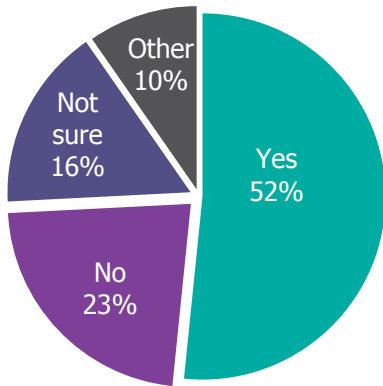
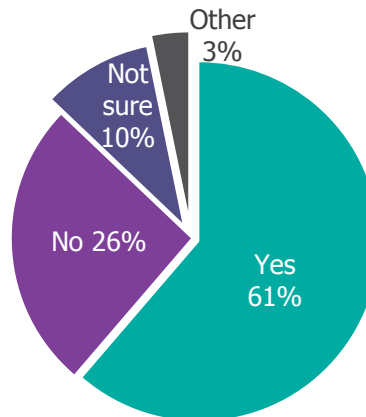


CHART 9: Commercial banks only – Is there a significant and long-term need for standardized methodologies/guidance for measuring financed emissions?



4.4 Investors' answers to the two key questions

Investors (including both asset managers and asset owners²) represented a smaller proportion of respondents compared to the number of respondents from banks – investors accounted for just 12% of respondents, whereas banks accounted for 40% of respondents in total.

CHART 10: Investors only – Is measuring and reporting emissions associated with lending and investments an important business issue?

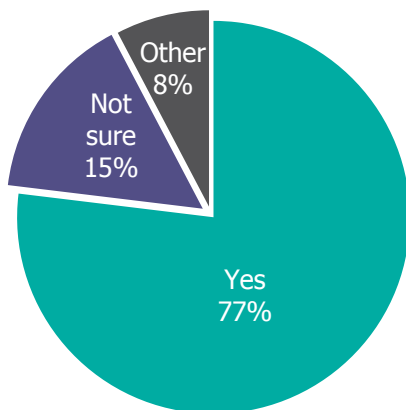
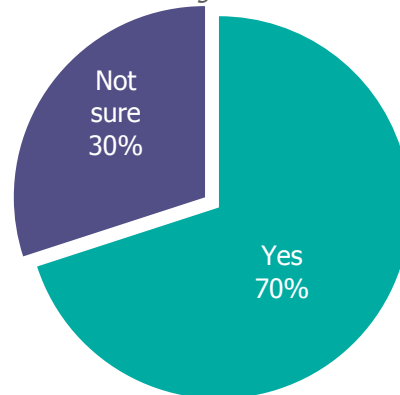


CHART 11: Investors only – Is there a significant and long-term need for standardized methodologies/guidance for measuring financed emissions?



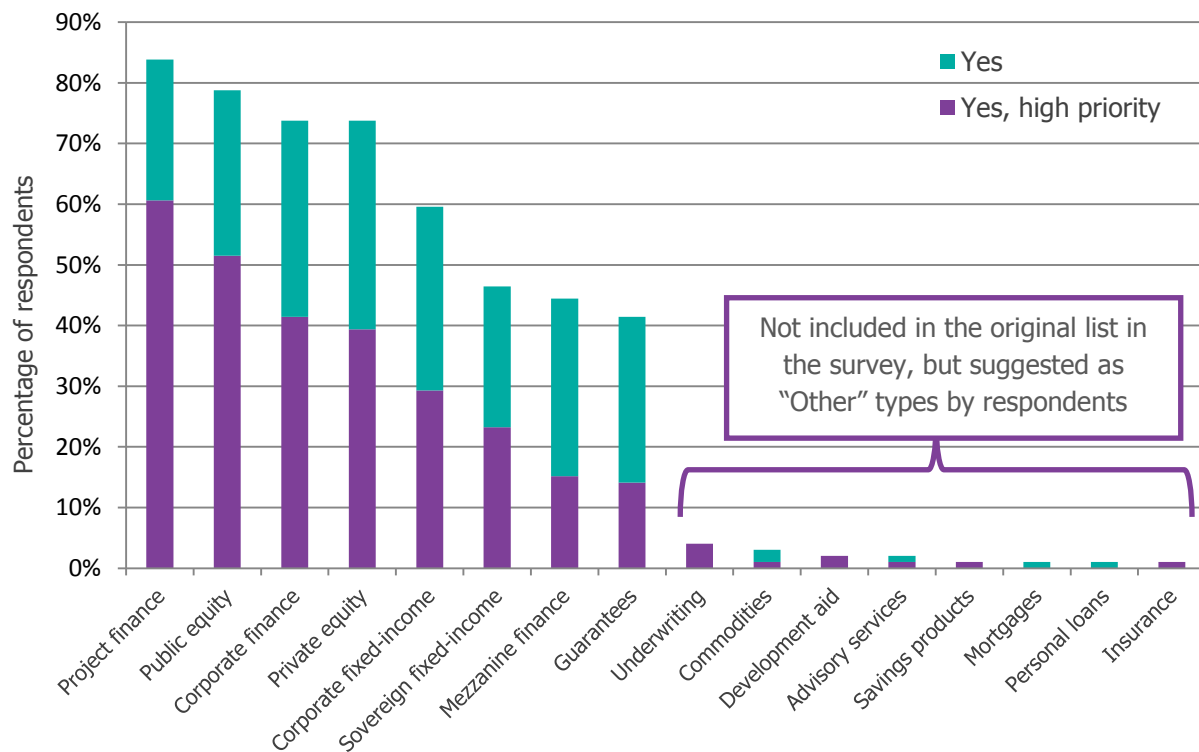
Approximately three quarters of the investors answered “yes” to the two key questions, and no investors answered “no” to either of the key questions (see charts 10 and 11 above). Although the sample size was small, it is significant that no investors thought that this was not an important business issue.

² Respondents from insurance companies were also included in this group as “investors”.

5. What lending/investment types should be included?

Respondents were asked to identify the lending/investment types that should be included in any guidance, and to identify which types should be the highest priority (see chart 12). They were also given the option to suggest other lending/investment types that were not included in the list.

CHART 12: All respondents – Should the following investment types be included in guidance on accounting for financed emissions and tracking emissions reductions over time? And what types of investments should be the highest priority?

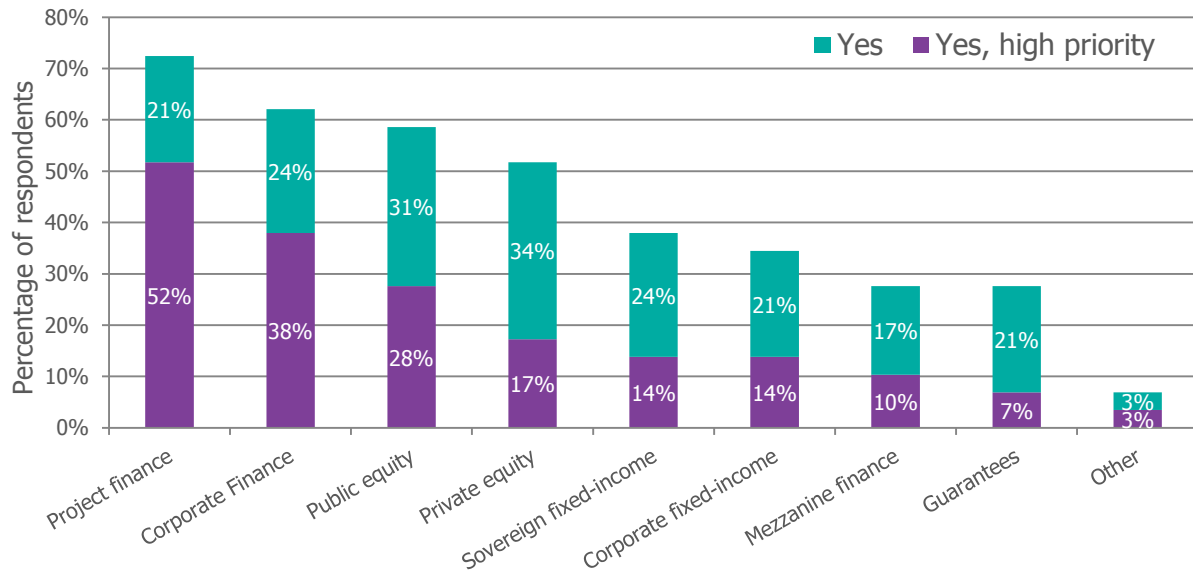


Respondents were asked to provide some explanation for their prioritization decisions. Some key themes were evident in the reasons for why certain types of lending/investment should be higher priority than others. Factors that were considered by respondents when answering this question included:

- Level of risk
- Size of GHG emissions of the asset class
- Size of the market
- Relevance for the financing of companies
- Ability to influence
- Timeframe of the investment/loan

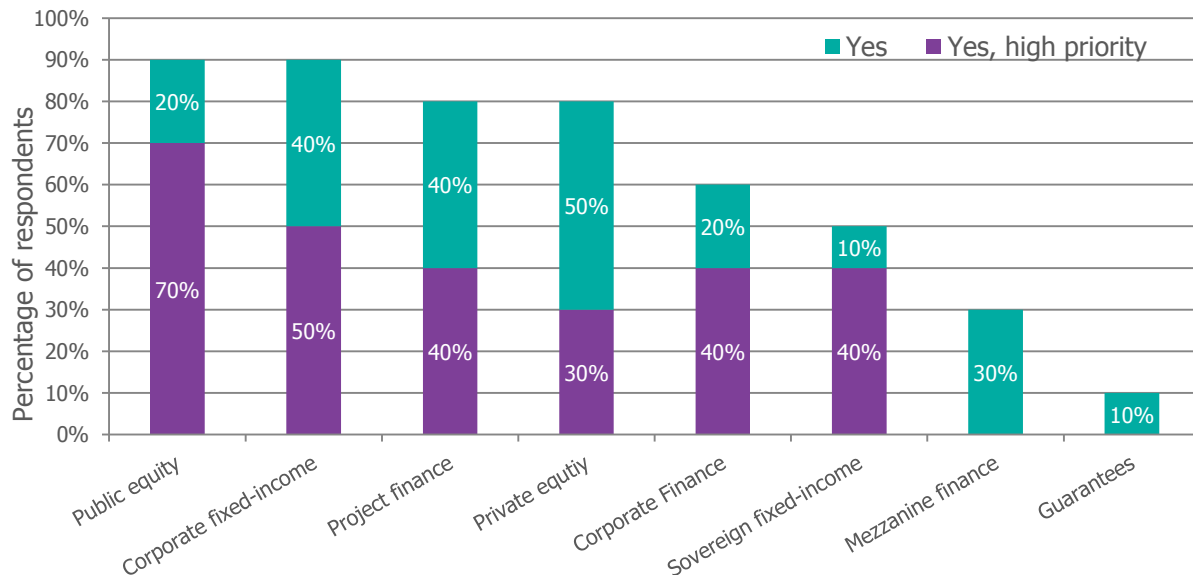
Among FIs, the order of priorities was the same as it was for all respondents (both FIs and non-FIs) – project finance was regarded as the highest priority, followed by public equity, corporate finance and private equity. Commercial banks, however, regarded corporate finance as a higher priority than public equity (see chart 13).

CHART 13: Commercial banks only – Should the following investment types be included in guidance on accounting for financed emissions and tracking emissions reductions over time? And what types of investments should be the highest priority?



Investors also had different priorities, with public equity and corporate fixed-income being the highest priority for them (see chart 14).

CHART 14: Investors only – Should the following investment types be included in guidance on accounting for financed emissions and tracking emissions reductions over time? And what types of investments should be the highest priority?



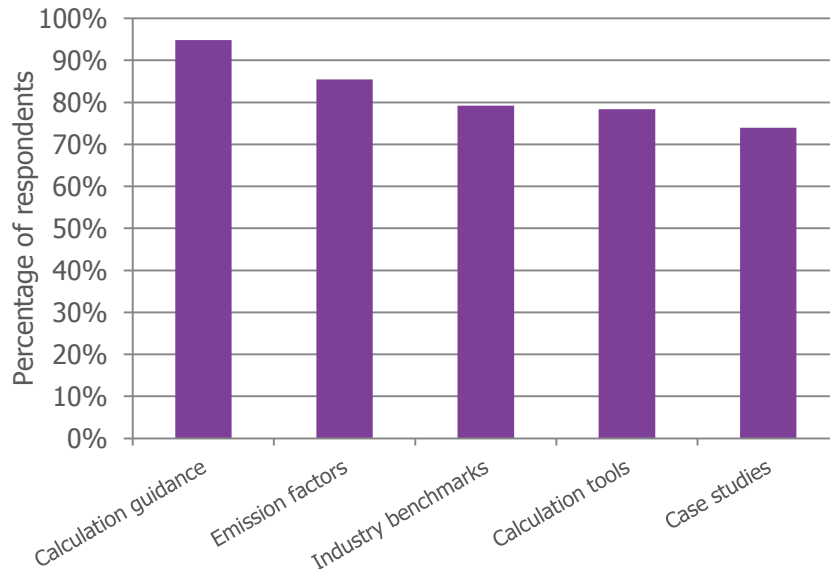
The differences in priorities for the different groups of respondents reflect their involvement in each of the different types of activity. These results indicate that project finance and corporate finance (e.g., commercial loans) are the highest priority for commercial banks, whereas public equity and corporate fixed income are the highest priority for investors. These results make it apparent that different types of financial activity are relevant to different groups of stakeholders, and that clarifying these distinctions and

dividing the guidance development process into appropriate work streams will be essential to the successful development of any guidance.

6. What information would be helpful to include in this guidance to measure and track financed emissions?

The stakeholders were asked what types of information would be helpful to include in guidance for measuring financed emissions. Chart 15 shows the positive responses for the different types of information suggested. High “yes” response rates were recorded for all of the suggested elements to include. Almost all respondents said that calculation guidance would be helpful to include, and emission factors, industry benchmarks, calculation tools and case studies were regarded as useful inclusions by at least three quarters of the respondents.

CHART 15: What information would be helpful to include in this guidance to measure and track financed emissions?



7. Experiences using existing methodologies

7.1 What types of lending/investing have been measured?

Respondents were asked if they have already measured any types of financed emissions. Most commonly measured were emissions associated with project finance. Second most common was emissions associated with corporate loans. Although only a small number of the respondents were from development banks, almost all of them said that they measure emissions associated with project finance. One development bank also said they measure emissions associated with their loans and five of the 31 respondents from commercial banks (16% - see chart 16) have measured emissions associated with corporate lending, although not all of the banks have made the figures public at present.

Equity portfolios were the third most commonly measured, after project finance and corporate finance. It should be noted, however, that investors accounted for a much smaller number of respondents compared to banks, which means there may be a bias towards banking activities (e.g., project finance and corporate loans) in these results.

Other respondents stated that they have measured emissions associated with corporate bond portfolios; sovereign loans; infrastructure portfolios; underwriting; personal loans; and personal savings. Between one and three respondents have measured each of these types of financed emissions.

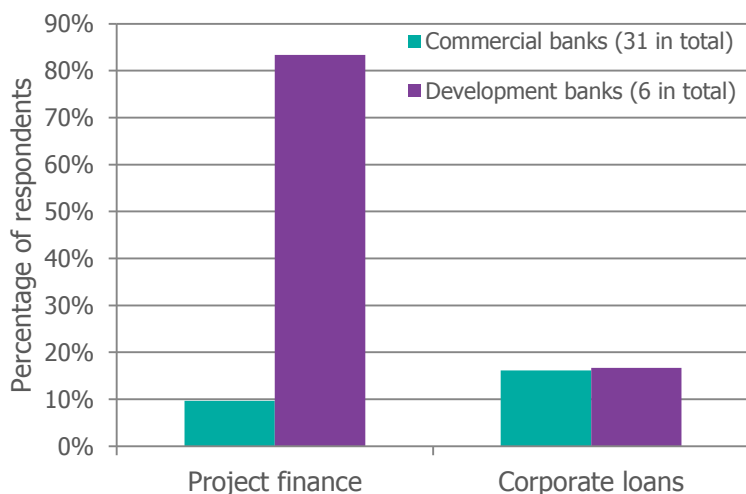
73% of FI respondents who have measured financed emissions mentioned responsibility as a reason why measuring financed emissions was an important business issue (key question 1), and 45% mentioned risk management. These percentages are closely correlated with the percentages seen for all FIs (see chart 5).

7.2 Challenges encountered when measuring financed emissions

Respondents who have measured emissions associated with lending and investments were also asked to describe some of the challenges and difficulties they had encountered. Those respondents that had not measured financed emissions were asked what the reasons were for not doing so. There were a number of common themes in the challenges identified by those measuring financed emissions and the reasons why others have not attempted any measurement of financed emissions:

- Data availability and quality
- Normalizing emissions to enable comparison of companies
- Time and resources required
- Methodological concerns (e.g., avoiding double counting)
- Protecting client confidentiality
- Ensuring consistency between different financing activities
- Interpretation of results (unclear what the resulting figures mean)
- Lack of senior management buy-in (and resulting lack of any sanctions for non-compliance)

CHART 16: *Has your organization measured financed emissions? If the answer was "yes", what methods and practices were used?*



8. Additional feedback

The respondents were also given the opportunity to provide any other feedback, and a number of common issues were raised:

- It would be useful to promote a wider discussion on the risk versus responsibility question and give appropriate guidance – will the guidance be designed to track progress towards emissions reduction targets (i.e., responsibility), or will it help banks to manage risks?
- The focus of the guidance should be on measurement for incorporation of GHG data into internal risk analysis, rather than for public reporting purposes – effort needs to be directed to more guidance on understanding how carbon emissions may create real risk in a financial transaction and how that risk may be managed.
- It should be ensured that the guidance is not prohibitively complex or so prescriptive that it limits buy-in from financial institutions. Simple guidance would be preferable, but the guidance also needs to be ambitious and constructive enough to be an effective response to the urgency of the situation.
- When determining what investment types to include, the “80/20 rule” should be applied, so that banks target the most significant impacts, the largest clients and the high risk sectors, in order to optimize the cost-benefit ratio.

9. Conclusion and next steps

The survey results indicate that there is broad interest in better understanding, measuring and managing financed emissions. There is also broad interest in the availability of a standardized methodology for measuring and reporting financed emissions. Responsibility and risk management were identified as the two broad drivers for measuring financed emissions, but concerns were raised relating to complexity, cost-benefit ratio, and the challenges of incorporating GHG data into existing risk analysis. The results also indicate that project finance and corporate finance are the highest priority for private and public banks, whereas public equity investments and corporate fixed income (bonds) investments are the highest priority for investors.

GHG Protocol and UNEP FI will further explore the need to develop guidance for financed emissions. As a next step, two scoping workshops are being held. The workshops will help gain in-person feedback on the issues raised in the survey and to discuss the priorities to address if the guidance is to be developed. The first workshop was held at Bank of America Merrill Lynch’s offices in London on December 19, 2012. A second scoping workshop is scheduled for New York in late February. Summaries of the outcomes of these scoping workshops will be published on the GHG Protocol website (<http://www.ghgprotocol.org/feature/financial-sector-guidance-corporate-value-chain-scope-3-accounting-and-reporting>).

11. List of responding organizations

Of the 107 stakeholders responded to the questionnaire, the following organizations agreed to be recognized by name.

- 2° Investing Initiative
- 5th PL
- Achmea
- Allianz SE
- ASN Bank
- Banco do Brasil, S.A.
- Banco General, S.A.
- Banco Pichincha C.A.
- BankTrack
- Beco, (part of Ernst & Young)
- Bicbanco - Banco Industrial e Comercial
- Bloomberg LP
- BSR
- Carbon Disclosure Project
- CBRE
- Ceres
- CIRAIG
- Citi
- Climate Focus
- Crédit Andorrà
- Credit Suisse
- Defra
- Desjardins Group
- Earth Capital Partners
- EBRD
- Ecocentric Carbon Management
- EFIC
- Emporiki Bank of Greece
- Environmental Investment Organisation
- ERM
- Ethical Markets Media
- Export Development Canada
- Factor CO2
- Fira Banco de Mexico
- FMO
- GFAI Investimentos
- Helm Bank
- HSBC
- IDLC Finance Limited
- Inter-American Development Bank (IDB)
- International Rivers
- Itau Unibanco
- JPMorgan Chase
- Land Bank of the Philippines
- London School of Business and Finance
- MAPFRE
- Myclimate
- ODI
- Oeco Capital Lebensversicherung AG
- Pax World Management LLC
- PE INTERNATIONAL
- Portigon AG
- Preventable Surprises
- PricewaterhouseCoopers
- Profundo
- Rainforest Action Network
- RBS
- Royal Bank of Canada
- S2 Sustainability Consultants
- Santam Ltd
- SEB
- Second Nature
- Shareholder Association for Research and Education (SHARE)
- Singapore Management University
- South Pole Carbon
- Standard Bank
- Start2see
- State Street Corporation
- SulAmérica Seguros, Previdência e Investimentos
- TD Bank Group
- The Carbon Accounting Company
- The CMG Consultancy
- The Pembina Institute
- Trucost Plc
- UniCredit SpA
- Verco
- Wells Fargo
- Westpac Bank
- Wipro
- WSP Environment & Energy
- WWF Germany
- WWF Sweden
- YES BANK Ltd.