

GHG Protocol / UNEP FI Financial Sector Guidance

Greenhouse gas accounting and reporting guidance for financial intermediaries

Advisory Committee Meeting Outcomes

Hosted by Bank of America, 9-10 October 2013

Contents

1. General Feedback
2. Vision and Objectives
3. Technical Working Group Structure
 4. Scope of Guidance
 5. Engagement Strategy
 6. Next Steps
7. List of Attendees

The first meeting of the Advisory committee took place in New York at Bank of America's offices on October 9 and 10, 2013. The objectives of the meeting were to build a common vision of success, set the objectives and scope of the new guidance, and finalize the guidance development process.

This document provides a condensed summary of the discussion, rather than a comprehensive record of comments.

1. General Feedback

- The group confirmed the role of the Advisory Committee: The advisory Committee Includes around 25 organizations representing financial sector companies, accountants, governments, NGOs and academia, to serve as advisors throughout the process and help to make key technical decisions. This group will meet 1-2 times in-person¹ over the 2-year process and 2-4 meetings will be held virtually through webinars.
- Advisory Committee members expressed their commitment to the project, although there is still some disagreement on the objectives and value proposition, including the question of whether the guidance will serve any objective beyond responding to civil society stakeholders' demands for greater transparency.
- There was constructive and productive discussion on the Technical Working Group structure which will be split into different debtor/investee groups: companies and projects; governments; consumers; and a fourth group to address cross-cutting issues such as performance metrics and business goals.
- Some participants expressed that what would be most useful is to go further than accounting for historic emissions and develop a standard that looks at lending and

¹ The Convening Secretariat will make an effort to offer video-conferencing facilities when possible.

investment portfolio exposure to potential future emissions from fossil fuel reserves of portfolio companies other types of locked-in emissions (e.g. from power plants).

- There was some doubt expressed whether the inventory results can be used to set and track GHG targets.

2. Vision and Objectives

- *Accounting guidance, not risk assessment guidance:* It was agreed that the core purpose of this project is to develop GHG accounting and reporting guidance. There are other pieces of information that could be additionally included such as a risk management tool. It was agreed that GHG accounting and risk management are very different, and the aim of this project is to develop a standardized GHG accounting and reporting methodology. There was agreement from some, but not all members that GHG accounting exercises have potential to inform GHG risk assessment and management on a case-by-case basis. To ensure a manageable scope of work, however, it was decided that we would not develop guidance on risk assessment methodologies as part of this project. (*Note: Since the meeting the question of whether or not to include risk assessment guidance in the project has been reopened and is under consideration by the advisory committee.*)
- *Vision needs refining:* It was agreed that the vision of the project needs to be more clearly and concisely articulated. This is needed for two reasons: so that the TWGs are clear what the end goal is; and so that the project can be clearly communicated to all stakeholders, especially stakeholders within financial institutions. The vision of success for this project relates strongly to demonstrating the internal business case for undertaking a scope 3 GHG emissions inventory in terms of demonstrating the relevance of GHG emissions data to the financial intermediaries' activities. Building a stronger business case for the guidance, needs to be addressed by the relevant technical working group (see below).
- *Questions still remain about the vision and objectives:* What does success look like? What are the decisions that will be informed by this data? What is the internal use-case for the financial sector? How do we create the leadership vision and narrative?
- *Growing demand for transparency from stakeholders:* There was agreement that the demand for more finance sector transparency on GHG emissions is increasing, both by civil society actors, regulators, and institutional investors. There was also agreement that by remaining 'silent' on such a prominent issue, the finance sector, and with it platforms like UNEP FI, would lose credibility and increase vulnerability.
- *Summary of vision so far:* The accounting and reporting guidance is designed to create a robust, harmonized, and industry-supported approach to GHG accounting in the financial sector, which will facilitate greater transparency and a better-informed dialogue among all interested stakeholders. There may be a number of different uses of the data that will develop over time, but the first step is to establish the foundation of a robust, sensible and rigorous accounting framework.

3. *Technical Working Group Structure*

- It was decided that the technical working groups (TWGs) should be structured around the types of underlying entities (companies, projects, governments and consumers), rather than be structured based on the type of financing/financial service (e.g., investing, lending, etc.) or the asset class (e.g. fixed income, infrastructure, etc.). It was also decided that there should be an additional TWG that addresses some of the cross-cutting issues that relate to all the groups.
- The precise scope of each TWG will be further refined by the TWGs themselves. The TWG on companies and projects may be divided into sub-groups to address specific topics, but this will be determined by the TWG.
- It was also noted that the TWG structure will be flexible and be allowed to adapt as necessary throughout the process.

TWG Structure:

TWG 1: Companies and projects: Includes lending to and investment in companies and projects – corporate stocks; corporate bonds; corporate loans; SME loans; project finance; and project bonds. Also includes financial advisory services such as underwriting (final decision about inclusion of advisory services to be determined by the TWG).

TWG 2: Governments: Includes government bonds; municipal bonds; and government loans (lending to governments)

TWG 3: Consumers: Includes mortgages and, potentially, personal loans

TWG 4: Cross-cutting issues: Includes business goals; data collection and quality; reporting; target setting; and performance metrics

4. *Guidance Scope*

- **Financial holdings versus financial flows:** It was decided that the question of whether the accounting guidance should address financial holdings (i.e., following the balance sheet), or financial flows (i.e., following the P&L / cash flow statement) should be revisited by the TWGs. It was noted that it is important to balance the tradeoff between being comprehensive, being relevant and focusing the limited bandwidth on priority areas.
- **Case studies:** Case studies should be developed early in the TWG process. Case studies of methodologies in action will be valuable and will help highlight the challenges and priorities.
- **Potential future emissions from fossil fuel reserves:** GHG Protocol has a separate project that is developing a working paper on accounting for potential future emissions from fossil fuel reserves. It was decided that this working paper will be presented to the Advisory Committee at the next meeting in order to inform the committee's decision on how future emissions from fossil fuel reserves should be included in GHG emissions accounting and reporting by financial intermediaries.

- **“Avoided emissions”**: It was decided that accounting for “avoided emissions” from lending and investment portfolios should be dealt with by this project, but not as a priority. GHG Protocol has a separate project that is scoping out the need for an avoided emissions standard or guidance, and it was decided that the Financial Sector Guidance project should not have a working group on this topic. The project will aim to include guidance on accounting for “avoided emissions” from lending and investment portfolios separately from the main guidance document, possibly as an appendix.

5. Engagement Strategy

A number of groups were identified as important stakeholders to further engage in this project. The group will work to increase participation from: institutional asset owners (e.g. pension funds); top tier asset managers; government regulators; data providers; and advocacy groups.

6. Next Steps

1. Call for TWG participation (Late 2013)
2. Write project “elevator pitch” to clarify and communicate project vision and objectives (Late 2013)
3. TWG launch via webinar (January 2014)
4. Advisory committee webinar (Early 2014)
5. TWG in-person meeting (April 2014)
6. Next Advisory Committee meeting (May 2014)

7. List of Attendees

Advisory committee members

- Matthew Arnold and Marisa Buchanan, JPMorgan Chase & Co.
- Christopher Bray, Barclays
- Mark Campanale, Carbon Tracker Initiative
- Giorgio Capurri, UniCredit
- Stanislas Dupre, 2° Investing Initiative
- Tim Hassett, WWF US
- James Hulse, CDP
- Kaj Jensen, Bank of America
- Tom Kerr, IFC

- Karsten Loeffler, Allianz Group
- Robyn Lunning, Wells Fargo
- Richard Pearl, State Street
- Christopher Rowe, Prudential Investment Management
- Chris Walker, EY
- Cory Weiss, PwC
- Richard Zimmerman, HSBC (on behalf of Nick Robins)

Technical Working Group Chair

- Eliza Eubank, Citi

Secretariat

- Pankaj Bhatia, WRI
- Benedict Buckley, WRI
- Cynthia Cummis, WRI
- Remco Fischer, UNEP FI

Advisory Committee Members unable to attend

- Nathan Fabian, Investor Group on Climate Change (IGCC)
- Julie Fox-Gorte, Pax World
- Bill Harnett, Local Government Super
- Sefton Laing, RBS
- Daniel Marroquin, Banamex
- Julian Poulter, Asset Owners Disclosure Project
- Steve Priddy, London School of Business and Finance
- Nick Robins, HSBC
- Elisa Tonda, UNEP Business and Industry Unit (Advisory Committee observer only)
- Namita Vikas, YES Bank