



AVOIDED EMISSIONS REPORTING: A GREENWASHING BONANZA FOR FINANCIAL INSTITUTIONS?

A Briefing on the Partnership for Carbon Accounting Financials (PCAF) Public Consultation on New Methodologies for the Global GHG Accounting Standard

May 2025

The Partnership for Carbon Accounting Financials (PCAF) is a financial industry-led initiative to set standards for financial institution (FI) greenhouse gas accounting. It has significantly influenced reporting and target-setting across the financial industry, in particular by defining a methodology for FIs to measure their “financed emissions”, the emissions due to their lending and investing activities. PCAF states that:

Measuring financed emissions allows financial institutions to make transparent climate disclosures on their GHG emissions exposure, identify climate-related transition risks and opportunities, and set the baseline emissions for target-setting in alignment with the Paris Agreement.¹

PCAF originally published its methodology for measuring financed emissions in 2020, with a revised standard issued in 2022 (Financed Emissions: The Global GHG Accounting and Reporting Standard. Part A).² In December 2024, PCAF launched a consultation on additional methodologies for this Part A standard.³ Reclaim Finance has provided detailed answers⁴ to the questions asked in this consultation, which has now closed.

In this briefing, we explain our responses to some of the key issues covered in the consultation and our recommendations to PCAF. The issues we cover in this briefing are:

- **Financed avoided emissions (FAEs);**
- **Expected emission reductions (EER);**
- **PCAF’s response to criticisms of financed emissions (including emissions attribution analyses);**

¹ PCAF, [Financed Emissions: The Global GHG Accounting and Reporting Standard. Part A. Second Edition](#), p.7, December 2022

² Part B of the GHG Standard covers “facilitated emissions” from capital market issuances; Part C covers “insurance-associated emissions.”

³ [PCAF Launches Public Consultation on New Methodologies for the Global GHG Accounting and Reporting Standard](#), 3 December 2024

⁴ Reclaim Finance, [Responses to PCAF Public Consultation Part A](#), submitted via online portal, 28 February 2025

- **Disaggregated emission reporting;**
- **Disclosing undrawn loan commitments.**

Reclaim Finance has shared a draft of this briefing with PCAF and discussed our positions with them. PCAF has assured us that they will consider our arguments when updating the final version of their guidance. PCAF's overall position on the issues we raise is that:

"Regarding the FAE and EER, PCAF agrees that these metrics can be vulnerable to greenwashing if they are misused, and that is why PCAF has made efforts to develop guidance aimed at establishing guardrails and clear, standardized reporting requirements. Moreover, PCAF recognizes that reporting on (Financed) Avoided Emissions has already become market practice, while the EER metric aligns with legislative efforts in the European Union (like the requirement for FIs to forecast emission trajectories). Therefore, PCAF believes it is preferable to standardize this reporting with clear requirements and guardrails, rather than leaving it to each financial institution to use its own methodologies."

PCAF also agrees that financed emissions is not the sole metric for target setting and should be complemented with other metrics to ensure sufficient ambition levels and sector specificity. Additionally, PCAF insists that financed emissions disclosure is key to understanding the absolute climate impact of financial portfolios.

Reclaim Finance appreciates the dialogue with PCAF but continues to believe that by publishing methodologies for these metrics, PCAF is legitimizing and encouraging their use. Reclaim Finance also continues to insist that absolute financed emissions should not be used for target setting.

1) **Financed avoided emissions (FAEs)**

Since its first standard was published in 2020, PCAF has permitted – but not required – its members to report avoided emissions from project finance for renewable and energy efficiency projects.⁵ **The 2024 consultation draft proposes broadening this approach to general corporate loans and investments in all types of activities.** It defines avoided emissions as:

"the reduction in systemic emissions resulting from a project, product, or service compared to a counterfactual scenario, or put simply, emissions reductions that would not occur should the project, product, or service in question not exist."⁶

While it is already complex and subjective to assess how many emissions are avoided by a specific renewable plant, it is vastly more so when trying to assess avoided emissions across a large company's entire portfolio of business activities. **By legitimizing a much broader**

⁵ PCAF, [The Global GHG Accounting and Reporting Standard for the Financial Industry: First Edition](#), p.101, 2020

⁶ PCAF, [New guidance and methods for public consultation: For financial institutions measuring and reporting scope 3 category 15 emissions](#), p.46, November 2024 (referred to below as "Consultation draft").

scope of avoided emissions reporting, PCAF is opening the door to a huge increase in the potential for greenwashing in FI emissions claims.

PCAF proposes that FIs report their FAEs on an annual basis, as is done with financed emissions. This means that each year FIs could report the emissions supposedly avoided by the low or lower carbon activities of clients and investees in the relevant past year (it may be the previous year or earlier depending on data availability [see section below on “Data issues in financed emissions reporting”]).

The consultation draft recommends attributing corporate avoided emissions to the institutions that finance them using the same formula PCAF recommends for calculating “financed emissions” (from loans and investments), “facilitated emissions” (from capital markets activities), and insurance-associated emissions. This formula uses corporate value as a variable. This means that an FI’s financed or other attributed emissions for a specific company, or a sectoral or other portfolio, will vary over time according to changes in the value of that company or portfolio as much as to changes in the company’s or portfolio’s actual emissions⁷.

Using this same attribution methodology for FAEs will mean that inter-annual changes in reported FAEs will be only partially related to changes in estimates of avoided emissions. FAEs will therefore be of little use as an indicator of whether an FI is financing more or less avoided emissions over time.⁸

Data quality, guardrails, transparency, and verification

The key problem that is inherent to the concept of avoided emissions is that they are based on counterfactual scenarios which can never be proven or disproven (in PCAF’s words, “emissions reductions that would not occur should the project, product, or service in question not exist”).⁹ **While emitted emissions can be measured with at least some degree of accuracy, avoided emissions are necessarily based on a story of what might have been, and the storytellers inside FIs will always have an incentive to build their story using assumptions which will tend to favor high estimates of avoided emissions.**

PCAF says that avoided emissions data may be provided by corporations to FIs, or FIs may estimate the avoided emissions based on underlying data from their clients/investees. PCAF recognizes the problems of “consistency and quality” in avoided emissions data. And in an ironic understatement, notes that this data “might be overstated.” It then notes some “potential guardrails” that FIs might “consider” to prevent such overstatement.¹⁰ PCAF fails, however, to give any precise requirements for guardrails in calculating avoided emissions that would restrain the inevitable tendency for both companies and FIs to use assumptions which result in high estimates of avoided emissions. PCAF states that:

⁷ See e.g. <https://reclaimfinance.org/site/en/the-need-to-redesign-bank-decarbonization-targets/>

⁸ The consultation draft proposes that the time period over which FAEs should be calculated must be consistent with financed emissions reporting for any specific client. This means that if FEs are calculated on a life-cycle analysis basis, FAEs should also be counted over the entire life cycle of a project activity. Most companies, however, report emissions on an annual basis, so FAE reporting is likely to mostly cover avoided emissions over a single year.

⁹ Furthermore, there is never a single possible future. This is recognized in scenario planning, which posits that planning should not be based on a single forecast, but rather multiple scenarios based on different sets of assumptions about key variables (see e.g. P. Wack, [Scenarios: Uncharted Waters Ahead](#), Harvard Business Review, September 1985).

¹⁰ Consultation Draft, p.50

“avoided emissions numbers shall be based on a credible methodology and using a credible and conservative counterfactual scenario (including emissions reductions that will naturally occur without the avoided emissions activity in place).”¹¹

But it does not define what a “credible and conservative counterfactual scenario” is, so this will be left to FIs to decide.

The consultation draft states that:

“FIs **shall** disclose a clear and robust calculation methodology, including underlying assumptions and preferably built on country or regional data”.¹²

It is indeed essential that the underlying assumptions behind financed avoided emissions calculations should be disclosed, but in reality it is unlikely that *all* assumptions will be disclosed and adequately justified given the huge number of assumptions that go into any emissions scenario and the tendency of FIs to leave out much important information in their emissions reporting.¹³ Furthermore, it is unlikely that many, if any, stakeholders will have the capacity to go into the disclosures and rerun the calculations using alternative assumptions. **And in any case, because of the counterfactual nature of the methodology, the assumptions can never be proven to be “wrong” even if different observers have different ideas of what might be likely.**

PCAF states that other guardrails “to consider” include verification by a third-party auditor. Independent verification should be required for all FI reporting and must not be optional. However in this case because counterfactuals can never be proven or disproven; because both the original calculation and the auditors’ verification are unlikely to be adequately transparent; and because the auditor would likely wish to secure future work from their client and so would be incentivized to not be overly critical of the assumptions in the counterfactual scenario, third party auditing cannot be relied upon to prevent overstatement of FAE numbers.

Avoided emissions and greenwashing

The consultation draft stresses that FIs must report financed avoided emissions separately from their financed emissions. **However, while PCAF members may follow this requirement in their formal annual reports, they are unlikely to feel constrained from using “avoided emissions cancel out emitted emissions” arguments in press releases and public comments.** A much-criticized example of this is a statement in 2021 by then vice chair of Brookfield Asset Management, Mark Carney. Carney claimed that Brookfield had reached net zero because the emissions avoided by its renewable investments cancelled out the emissions emitted from the infrastructure fund’s significant fossil fuel portfolio.¹⁴ The climate, of course, is impacted only by emissions that happen, not by those that do not.

¹¹ Consultation Draft, p.49

¹² Consultation Draft, p.49. The draft precludes the estimation of “avoided emissions based on economic intensities (due to the high uncertainty and low credibility associated with such an approach)” (p.49).

¹³ See e.g. Reclaim Finance, [Targeting Net Zero: The need to redesign bank decarbonization targets](#), September 2024

¹⁴ [Mark Carney Walks Back Brookfield Net-Zero Claim After Criticism](#), Bloomberg, 25 February 2021

2) Expected emission reductions (EER)

Under the PCAF proposal, FAEs are backward-looking — they should be reported on an annual basis based on the emissions supposedly avoided by outstanding loans and investments for the relevant year. Expected emission reductions (EER), by contrast, are forward-looking. They represent the emissions — or avoided emissions — projected to be achieved by a future year due to a corporation's investments in projects, processes or products that have been enabled by a financial transaction in a base year. PCAF gives no guidance on how many years into the future an EER calculation may be made. As with FAE, PCAF proposes that EER reporting be optional and that EER numbers be disclosed separately from financed emissions.

EER was initially proposed by GFANZ in 2023 as a method for encouraging financing of high-emission companies if they are supposedly committed to cutting their emissions.¹⁵ Reclaim Finance and other NGOs have strongly criticized the EER concept, including because of the risks of it being used to justify continued high levels of finance for fossil fuel companies and other major emitters based on the assumption that these corporations will eventually transition, but without putting any meaningful pressure on them to change.¹⁶

PCAF proposes methodologies for reporting two types of EER: “expected absolute emissions” (Option 1) and the counterfactual “expected avoided emissions” (Option 2). **Both options would allow FIs to take credit now for financing supposed emission reductions that may or may not actually happen, and would as such be powerful tools for greenwashing.**

a) *EER1: expected absolute emissions*

EER1 is supposed to represent changes over time in the emissions of an FI's investee or client due to transition actions that this corporation takes that are enabled by financing from the FI. The formula is:

$$EER1 = \text{Absolute emissions}_{\text{Base year}} - \text{Absolute emissions}_{\text{Expected year}}$$

FIs would likely mostly use the emission projections/targets of their investees and clients. These estimates of corporate emissions years into the future will always be subject to numerous uncertainties, which grow exponentially over longer timespans. Key variables that impact whether these projections/targets are met include economic growth rates, consumer spending patterns, government policies, energy prices, public sentiment, technological changes, demographic changes, tariffs, wars, and pandemics. The relevant companies might also go bankrupt, get bought, or decide to change their business strategy, e.g. by giving up on their transition targets as BP, for example, has recently done.

As with avoided emissions, there would be an inbuilt bias from both corporates and FIs to select variables which give high estimates of EER1. PCAF proposes that there will be a “built-in safeguard” against FIs overestimating EER1 numbers as the FIs must report their annual progress toward their projected EER1 reductions.¹⁷ FIs, according to PCAF, will not want to look like they are “underperforming on their achieved EER in subsequent years.” **But FIs would still be incentivized to show high future emission reductions from their current financing decisions in order to justify these decisions, even if they had to show that they had overestimated EER1 in the past.**

¹⁵ GFANZ, [Scaling Transition Finance and Real-economy Decarbonization](#), December 2023

¹⁶ Reclaim Finance, [GFANZ proposes fatally flawed measurement for transition finance](#), 8 November 2023

¹⁷ Consultation Draft, p.55

b) *EER2: expected avoided emissions*

EER2 is based on subtracting expected absolute emissions from the emissions under a counterfactual scenario in which the relevant transition activity did not occur:

$$EER2 = \text{Absolute emissions}_{\text{Counterfactual scenario}} - \text{Absolute emissions}_{\text{Expected}}$$

EER2 thus combines the uncertainties of EER1 with the counterfactual problem encountered by avoided emissions.¹⁸ Indeed, the counterfactual problem is exponentially worse than PCAF's basic avoided emissions metric, because for EER2 the counterfactual scenario may be projected an unlimited number of years into the future.

While calculating an EER1 number means selecting single numbers for all the variables that go into projecting company-wide emissions years into the future, calculating EER2 also requires making up numbers for a hypothetical scenario where the company did not make the relevant transition investments. A further thick layer of uncertainty in EER2 calculations is that PCAF allows FIs to calculate supposed future avoided emissions from transition activities not just within a company's value chain, but also beyond it to as many parts of the global economy as the FI wants to include.¹⁹

PCAF proposes allowing EER2 to be reported on an annualized or cumulative basis. An obvious danger of reporting cumulative expected avoided emissions over a multi-year period is that this is asymmetric with financed emissions reporting, which is done on an annualized basis. Single year financed emissions numbers could be made to look low when compared to multiple year EER2 estimates.

PCAF notes that data quality and assurance pose considerable problems for EER2 calculations due to its reliance on a counterfactual scenario.²⁰ It repeats for EER2 much of the language on how to ensure data quality for FAEs. This includes the (inadequate) proposal for optional third-party auditing, and the suggestion to use an undefined "credible and conservative counterfactual scenario."²¹

3) PCAF's response to criticisms of financed emissions

PCAF's consultation draft includes a detailed "Inventory fluctuations discussion paper." This paper is the result of a working group set up by PCAF to address criticisms of the formula it uses to attribute corporate emissions to FIs. The key shortcoming of this formula is that changes in "financed emissions" over time are only weakly correlated with changes in the underlying real-world emissions. Unfortunately, the working group has largely avoided addressing this issue and instead focuses on the secondary issue of inter-annual volatility of financed emissions numbers.

According to PCAF's methodology, an FI's financed emissions due to its loans and/or investments (its Scope 3.15 emissions as defined by the GHG Protocol²²) are calculated by multiplying client/investee emissions by an attribution factor. This factor divides the financial exposure of a bank or investor to a company by the value of that company. The resulting

¹⁸ Note that this formula is erroneously inverted in the PCAF consultation draft (p.54).

¹⁹ See Consultation Draft, p.55

²⁰ Consultation Draft, p.55

²¹ Consultation Draft, p.56

²² <https://ghgprotocol.org/sites/default/files/2022-12/Chapter15.pdf>

number in theory gives a useful metric for comparing the emissions impact of different FIs at any single moment in time (in practice the lack of standardization between FIs on how they calculate their financed emissions reduces the usefulness of inter-FI financed emissions comparisons).

The key problem, however, is with using financed emissions to track changes in the emissions impact of an FI over time, and in particular in using it for setting targets for Scope 3.15 emissions. Financed emissions can fluctuate significantly from year to year as corporate values change, independently of any change in emissions or financing volumes. FIs can therefore meet financed emissions reduction targets without any drop in the real-world emissions of their clients/investees, or changes in their own financing practices. The inventory fluctuations paper recognizes that:

“Financed emissions are sensitive to several variables, and volatility in these variables can cause large changes in the financed emissions metric over time, which may not reflect changes in activity, or the decarbonization actions of FIs or their clients.”²³

The inventory fluctuations paper notes that as a result of these shortcomings, “scholars and industry professionals...suggest reducing the emphasis on financed emissions as the sole metric in climate disclosures.”²⁴ Yet PCAF fails to recommend the use of other metrics for Scope 3.15 reporting, stating that “the [fluctuations] working group was focused solely on financed emissions, given its prevalence as the metric of choice in the industry, rendering this discussion out of scope for this paper.”

Rather than discussing other metrics that would be better suited for target setting – such as sectoral portfolio financing volume (SPFV) targets for fossil fuel supply sectors and weighted average portfolio intensity (WAPI) targets for fossil fuel demand sectors²⁵ – the working group focuses on how to tweak the attribution formula so as to dampen the interannual fluctuations of financed emissions numbers. This volatility is a problem, but it is not the key reason why financed emissions are a poor metric for target setting and tracking changes in FI climate impacts.

PCAF’s attribution formula requires the value of publicly listed companies to be represented by a metric known as enterprise value including cash (EVIC). For private companies, the book value of equity and debt is used. The fluctuations working group modeled whether using other corporate value metrics such as total assets or EBITDA²⁶ would decrease volatility. They also assessed the pros and cons of smoothing out fluctuations by using moving averages of emissions over different time periods.

The analysis assessed how the different metrics would have performed between 2018 and 2022 for an equity portfolio including all the companies in the MSCI All Country World Index (ACWI).²⁷ The conclusion drawn from this exercise is that “volatility is inherent in any choice of the denominator metric” but that EVIC is likely the least imperfect option.²⁸ It should be noted that this assessment looked only at investments in publicly listed companies and only for a specific brief timespan, so it cannot be determined how the different metrics might have behaved over alternative, or longer time periods, or for different asset classes.

²³ Consultation Draft, p.60

²⁴ Consultation Draft, p.63

²⁵ See Reclaim Finance, [Targeting Net Zero: The need to redesign bank decarbonization targets](#), September 2024

²⁶ EBITDA = earnings before interest, taxes, depreciation and amortization

²⁷ www.msci.com/documents/10199/8d97d244-4685-4200-a24c-3e2942e3adeb. This index included 2,646 companies at the time of PCAF’s analysis.

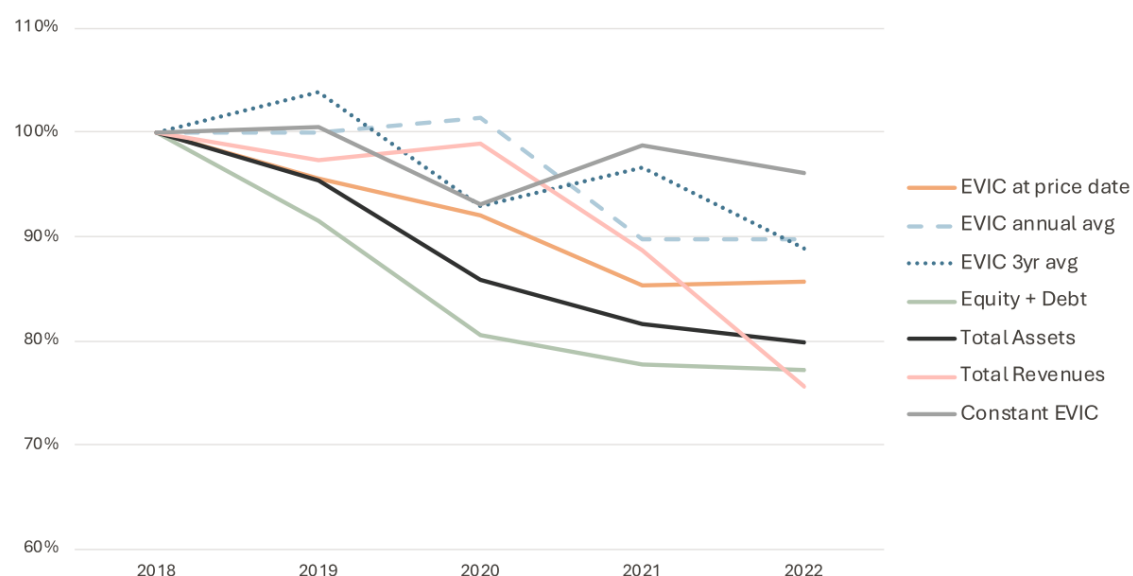
²⁸ Consultation Draft, p.68

Furthermore, because the analysis focused on the issue of volatility, it failed to assess how accurately financed emissions track real-world emissions other than to note that the “long-term trend is a consistent downward decline in financed emissions across all choices.”²⁹ While PCAF evaluated only a five-year period, this consistent downward decline can be expected over longer periods as inflation and economic growth tend to increase corporate value, regardless of how it is measured, and financed emissions are inversely related to corporate value.

The graphs in the inventory fluctuations paper show that while the total Scope 1 and 2 emissions of the companies in the ACWI according to the available data declined by around 4% over this five-year period, the financed emissions of their investors – using EVIC in the form currently recommended by PCAF – would have fallen by around 14% assuming that investment amounts stayed constant (see Figure 4.2 from the PCAF consultation paper, reproduced below).³⁰

Figure 4.2. Examining linkage to emission changes

Keeping outstanding amounts constant. The grey line indicating ‘Constant EVIC’ represents the benchmark scenario.



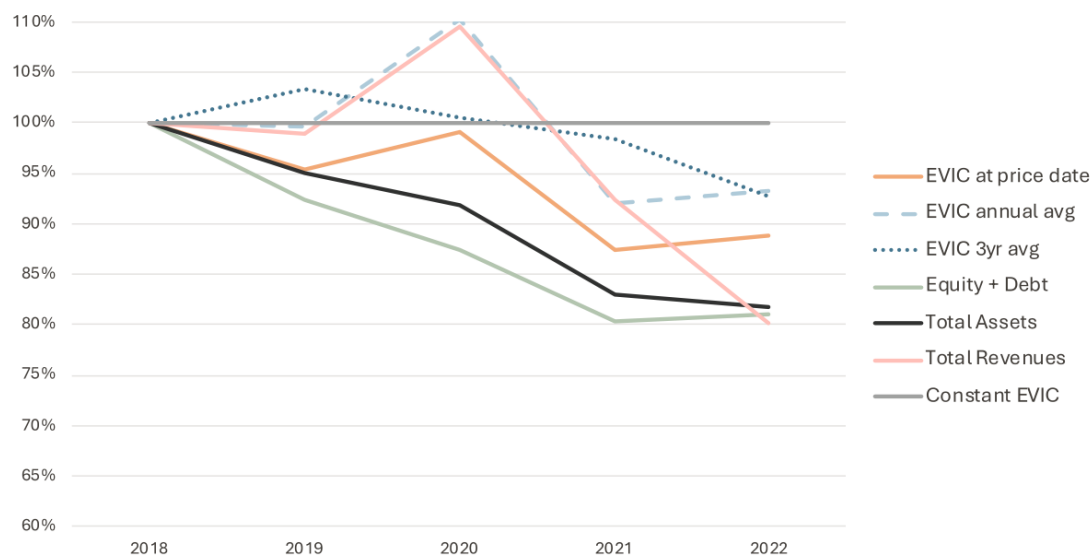
Had emissions and investment amounts stayed constant over this period (Figure 4.1 in the PCAF report, reproduced below), financed emissions would have fallen by around 11%. Note that the gap between real-world and financed emissions is even greater for the other corporate value metrics tested in this analysis.³¹

²⁹ Consultation Draft, p.68

³⁰ Consultation Draft, Figure 4.2, p.67

³¹ Consultation Draft, Figure 4.1, p.67

Figure 4.1. Understanding impact of changes to denominator in financed emissions
Keeping outstanding amounts and emissions constant



The analysis shows that using a 3-year average of EVIC, or an annual average of quarterly EVIC values, would have reduced the gap between financed emissions and real-world emissions. These rolling averages also smooth out volatility, but the working group argues that there are “conceptual and operational challenges” in using them.³² However, these challenges as listed do not appear to be insurmountable, and indeed JPMorgan Chase already reports its financed emissions using a 3-year EVIC rolling average.³³

Data issues in financed emissions reporting

The inventory fluctuations paper addresses two data issues that significantly impact financed emissions calculations. One is the temporal misalignment of data: available emissions data is often one or more years older than financial data, meaning that financial institutions often use corporate value and emissions data from different years.

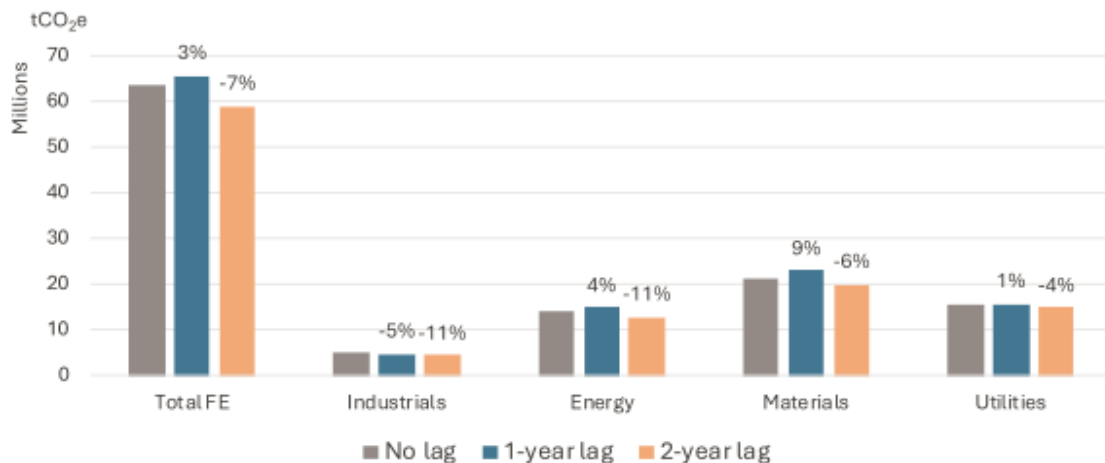
PCAF calculates that a two-year misalignment between emissions data from ACWI companies and financial data would lead to Scope 1 and 2 financed emissions being 11% lower in the industrials and energy sectors than if the two types of data were aligned (see Figure 4.3 reproduced below).

³² Consultation Draft, p.68

³³ JPMorgan Chase, [2024 Climate Report](#), p.37

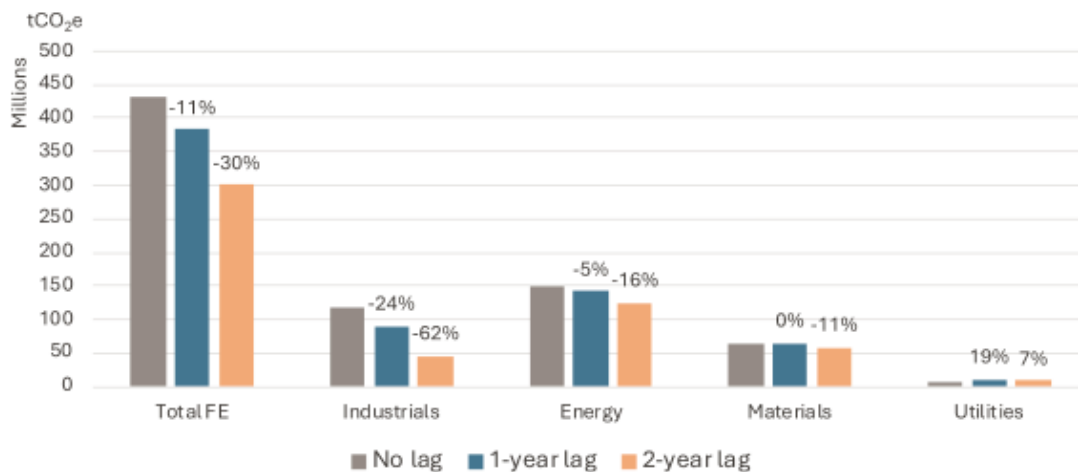
Figure 4.3. Understanding impact of temporal misalignment of data in financed emissions (FE)

Total FE, Scope 1+2 - High emitting sectors



For Scope 3 emissions, a two-year misalignment has an even larger impact: minus 16% for energy and minus 62% for industrials (see below).³⁴

Total FE, Scope 3 U+D - High emitting sectors



The other data issue is the poor quality of corporate emissions reporting. Because of this poor quality, PCAF allows financial institutions to use standardized sectoral emission factors to estimate emissions based on either corporate revenues or assets. The inventory fluctuation paper shows huge variations in financed emission numbers depending on the emission factor database used, the use of revenue- or asset-based factors, and the year of the database (see Figure 4.4 below from PCAF paper)³⁵

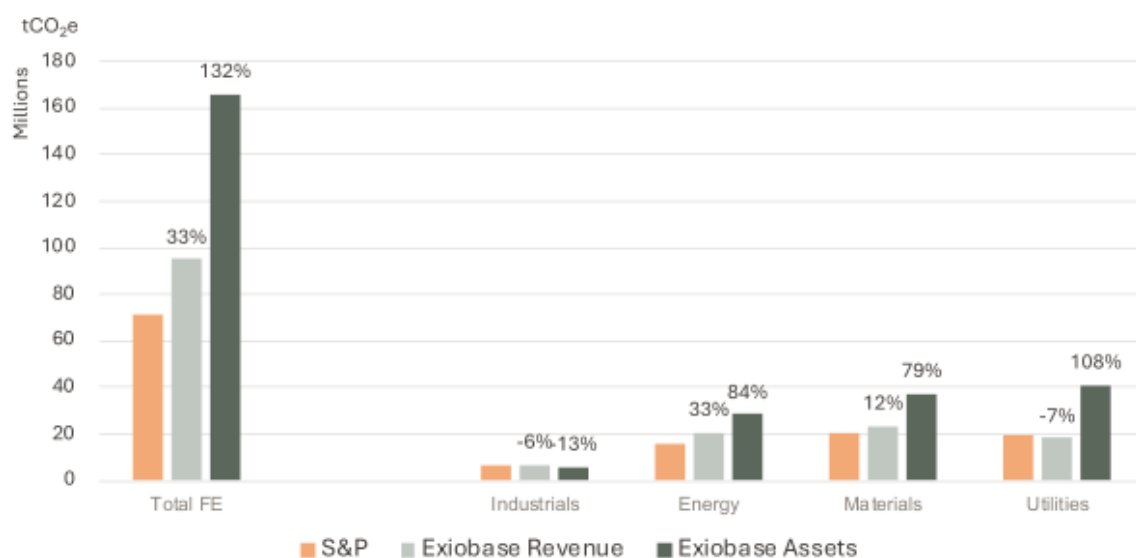
³⁴ Consultation Draft, p.71

³⁵ Consultation Draft, p.74

CHANGES IN EMISSION FACTOR DATASETS

Figure 4.4. Understanding impact of changes to emissions factors in financed emissions

Total FE, Scope 1+2 – Different EF Datasets, High Emitting Sectors



PCAF proposes various options to address these emissions data problems but notes that all have pros and cons and does not recommend the use of any specific option.

The use of attribution analysis

The consultation draft notes that some analysts propose that financed emission reporting should be accompanied by an “attribution analysis” which explains the drivers of changes in financed emissions. Among those who have called for transparent and comprehensive financed emissions attribution analyses are the UN-Convened Net-Zero Asset Owner Alliance, the Network on Greening the Financial System, and MSCI.³⁶

PCAF notes that such an analysis:

“will significantly aid transparency as it will provide users of climate and sustainability reports insight into whether emissions reduction shown in financed emissions are due to real-world decarbonization or due to changes in other factors such as portfolio allocations, EVIC volatility, or the change in data quality.”³⁷

Yet despite the obvious importance of carrying out and disclosing such an analysis, the consultation draft only recommends that PCAF members “may” carry out such an analysis and does not make it mandatory.

³⁶ NZAOA, [Understanding the Drivers of Investment Portfolio Decarbonisation: A discussion paper on emissions attribution analysis for net-zero investment portfolios](#), December 2023; NGFS, [Improving Greenhouse Gas Emissions Data](#), p.8, July 2024; MSCI, [Connecting Emissions Attribution with Climate Action](#), 16 May 2023

³⁷ Consultation Draft, p.75

4) Disaggregated emission reporting

The consultation draft proposes updating PCAF's recommendations with language encouraging FIs to disaggregate financed emissions reporting according to portfolio characteristics. Examples given for such characteristics are green finance, transition finance, managed phase-out, counterparties with SBTi targets and counterparty alignment with a regulatory framework such as the EU taxonomy.³⁸ PCAF notes that such disaggregation can, like attribution analyses, "provide stakeholders with additional clarity on underlying drivers of emissions." It can also ensure that financed emissions targets do not dissuade financing for high-emitting companies and projects which genuinely intend to use the finance to reduce their emissions, such as early coal retirements.

As with attribution analyses, such disaggregated reporting is clearly important, yet PCAF again proposes to make such reporting optional.³⁹

5) Disclosing undrawn loan commitments

A significant inconsistency in bank reporting of financed emissions from lending is that some banks base their calculations on the full amount of loan commitments, whereas others use only the actual drawn amounts. PCAF previously recommended only reporting on drawn amounts and had not published a methodology for reporting on full commitments. The draft consultation notes that this is not consistent with the accounting and disclosure criteria of the International Sustainability Standards Board (ISSB).⁴⁰

The draft consultation paper rightly proposes that it should be mandatory for financial institutions to report emissions related to both the full amount of their loan commitments and their undrawn commitments.

6) Reclaim Finance Recommendations

a) *Recommendations specific to PCAF Public Consultation on New Methodologies for the Global GHG Accounting Standard:*

- i) PCAF should withdraw its proposed methodologies for expanding the use of avoided emission reporting beyond project finance for renewable energy. It should explain to its members that the reliance of these metrics on projections and counterfactuals renders them too arbitrary and subjective to deliver useful information. It may be relevant for individual corporations to use forward-looking scenarios for avoided emissions under different financial, technological, policy, etc. assumptions in order to compare the climate impact of business decisions. **But it is misleading and will be highly prone to greenwashing for financial institutions to publish single numbers for the emissions avoided across sectoral or entire asset class portfolios.**

³⁸ Consultation Draft, p.56

³⁹ Consultation Draft, p.56

⁴⁰ Consultation Draft, p.83

- ii) PCAF should require its members to publish a comprehensive and transparent attribution analysis along with any reporting on counterparty emissions or other climate-related metrics such as sustainable finance etc.
- iii) PCAF should require its members to disaggregate target setting and reporting for different portfolio characteristics. PCAF also needs to issue clear definitions for asset groups such as sustainable finance, transition finance, and managed phase-out finance.

b) Broader recommendations.

The primary purpose of PCAF is to standardize reporting on financial institution Scope 3.15 emissions, and not to set detailed criteria for target setting. However, PCAF is explicit in its “Global GHG Accounting & Reporting Standard” that its reporting guidelines are key to target setting, and that targets should be set based on financed emissions. And while not all PCAF members follow all PCAF’s recommendations in their target setting, it has been extremely influential in the design of financial institution Scope 3.15 target methodologies. PCAF therefore has a responsibility to address the implications of its standards for target setting.

Six years after PCAF first published its methodology for financed emissions, it should now undertake a broad review of the usefulness of financed and other attributed emissions metrics for the setting of financial institution decarbonization targets. The review should go beyond the single asset class and short timeline reviewed in its financed emission fluctuations analysis. It should focus on the need for metrics that reflect only counterparty performance (in particular, “real-world” changes in absolute emissions and/or physical emissions intensities, and financial institution portfolio allocation strategies), without unnecessary influence from external factors such as stock market performance or corporate revenues.

In 2024, Reclaim Finance published detailed recommendations for financial institution disclosures and target setting in reports on bank targets⁴¹ and financial institution transition plans.⁴² The recommendations below are based on the findings of these reports:

- i) Financial institutions should annually report the below information for all clients on a sectoral and portfolio-wide basis, and report on their exposures as well as client characteristics, climate performance, and transition assessment.
 - 1) **Financial exposures:** total and relative (as % of financial service and total balance sheet) exposure aggregated for each sector;
 - 2) **Emissions coverage:** Client emissions should be reported separately for:
 - a) each material high-emission sector;⁴³
 - b) each material financial service, including loans and investments; capital-markets facilitation; and insurance services;

⁴¹ Reclaim Finance, [Targeting Net Zero: The need to redesign bank decarbonization targets](#), September 2024

⁴² Reclaim Finance, [Financial Institutions’ Transition Plans: How to drive real-economy decarbonization](#), December 2024

⁴³ Reporting should cover at least the following nine high-emitting sectors: agriculture; aluminum; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport (aviation, shipping, automotive). These sectors represent a large majority of global GHG emissions. NZBA recommends banks set targets for these nine sectors.

- c) each of their clients' material emission sources (including material subsectors/value chain segments, greenhouse gases, and scopes); and all entities within their organizational boundaries.⁴⁴

- 3) **Emission metrics:** These should include (see Appendix for formulas):
 - a) unattributed and unweighted absolute emissions;
 - b) weighted average (relative exposure) absolute;
 - c) weighted average (relative exposure) absolute emissions intensity;
 - d) average emissions intensity, minimum and maximum, and distribution of intensity profiles;
 - e) weighted average and distribution of PCAF emissions data quality scores.
- 4) **Production and technology mix:** for relevant sectors (e.g., O&G, industry (esp. steel), automotive (powertrain mixes)),
 - a) average production and distribution of production profiles at the sectoral level;
 - b) technology mix (production and exposure weighted) at the sectoral level.
- 5) **Transition assessment:**
 - a) average, minimum, maximum, and distribution of clients' transition assessment for each sector, with a qualitative assessment of main weaknesses and strengths, possibly differentiating markets;
 - b) other metrics (e.g. % of clients and exposure with SBTi-validated targets).

ii) For decarbonization targets,⁴⁵ PCAF should recommend that its members:

- 1) Not use metrics that include financial components (e.g. financed emissions) or any other component that shows exogenous variability and/or is not directly related to "real-world" emissions and/or financial institution portfolio allocation strategies;
- 2) For all sectors except fossil fuel supply sectors, set Sectoral Portfolio Weighted Average Physical Intensity (WAPI)⁴⁶ targets;
- 3) For fossil fuel supply sectors, use only financial exposure targets;
- 4) Set separate targets for each material high-emission sector and each material financial service, disaggregating targets for emissions due to loans and investments; capital-markets facilitation; and insurance services.⁴⁷

⁴⁴ Organizational boundaries can be set using a financial or operational control approach.

⁴⁵ Reduction of Scope 3.15 emissions (emissions associated with the business activities of financial services companies and agencies) (see <https://ghgprotocol.org/sites/default/files/2022-12/Chapter15.pdf>)

⁴⁶ For heterogeneous sectors such as agriculture, mining or chemicals, financial institutions should disaggregate and set different targets for each subsector. If not judged feasible (e.g. due to data availability, multisectoral integrated companies, or too few companies in sub-portfolios), financial institutions may aggregate by using economic emissions intensity metrics or aggregate indicators for the denominator (e.g. copper equivalent for mining sector); however, they shall duly and transparently justify this choice and disclose all hypotheses underlying calculations.

⁴⁷ These targets shall at least cover the following nine high-emitting sectors: agriculture; aluminum; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport (aviation,

- 5) Cover in their targets:
 - a) all clients' material emission sources (including material subsectors/value chain segments, greenhouse gases, and scopes);
 - b) all entities within their organizational boundaries;⁴⁸
- 6) Disaggregate targets by sector, business segment, asset classes and business lines as well as scopes (Scope 1 and 2 can be aggregated, but separated from Scope 3), and gases (especially CO2 and methane) when relevant;
- 7) Disclose PCAF data quality scores for each sector;⁴⁹
- 8) Set targets for 2030 and every 5 years thereafter, with final targets aiming for carbon neutrality by 2050 at the latest;
- 9) Scope 3.15 targets should be based on 1.5°C no/low overshoot pathways relying on a limited volume of negative emissions.⁵⁰ Target ranges shall not be used;
- 10) Justify the target reduction rate and the targets' 1.5°C-alignment, and disclose all assumptions and data underlying target setting methodology;
- 11) Do not include clients' purchased or retired offsets in their Scope 3.15 emissions targets calculation.

shipping, automotive). These sectors represent a large majority of global GHG emissions. NZBA recommends banks set targets for these nine sectors.

⁴⁸ Organizational boundaries can be set using a financial or operational control approach.

⁴⁹ Data quality scores should include sectoral averages and five-tier distribution.

⁵⁰ Reclaim Finance, [Climate Scenarios: picking a safe path to a sustainable future](#), accessed November 2024

Appendix: Emission metric formulas

Absolute (unattributed and unweighted) emissions per sector

$$\sum_c CE_c$$

where c = Company c,
CE = Company emissions.

Weighted average (relative exposure) absolute portfolio emissions

$$\frac{\sum_c \frac{FIN_c}{TOT\ FIN} \times CE_c}{TOT\ FIN}$$

where c = Company c,
FIN = Company exposure,
TOT FIN = Total sectoral portfolio financing,
CE = Company emissions.

Weighted average (relative exposure) absolute portfolio emissions intensity⁵¹

$$\frac{\sum_c \frac{FIN_c}{TOT\ FIN} \times CE_c}{TOT\ FIN}$$

where c = Company c,
FIN = Company exposure,
TOT FIN = Total sectoral portfolio financing,
CE = Company emissions.

Sectoral Portfolio Weighted Average Physical Intensity (WAPI)⁵² targets:

$$\begin{aligned} & \sum_c \frac{FIN_c}{TOT\ FIN} \times CEI_c \\ &= \sum_c \frac{FIN_c}{TOT\ FIN} \times \frac{CE_c}{PROD_c} \end{aligned}$$

where c = Company c,
FIN = Company exposure,
TOT FIN = Total sectoral portfolio financing,
CE(I) = Company emissions (intensity),
PROD = Company production/output.

⁵¹ This measure is standardized by dividing weighted average portfolio emissions by total portfolio financing, so as to benchmark FIs of different size.

⁵² For heterogeneous sectors such as agriculture, mining or chemicals, financial institutions should disaggregate and set different targets for each subsector. If not judged feasible (e.g. due to data availability, multisectoral integrated companies, or too few companies in sub-portfolios), financial institutions may aggregate by using economic emissions intensity metrics or aggregate indicators for the denominator (e.g. copper equivalent for mining sector); however, they shall duly and transparently justify this choice and disclose all hypotheses underlying calculations.