

Greenhouse Gas Protocol/UNEP FI Financial Sector Guidance Greenhouse gas accounting and reporting guidance for financial intermediaries

Technical Working Groups: Call for Participation and Terms of Reference

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Background

The Greenhouse Gas Protocol (GHG Protocol) and the United Nations Environment Programme Finance Initiative (UNEP FI) have begun the process for developing guidance to help financial intermediaries (FIs) assess the emissions from their lending and investments portfolios and to assess carbon asset risk exposure.

As the world transitions to a low-carbon economy, the financial sector will need to better understand its exposure to greenhouse gas emissions. Currently, most banks only measure emissions from their own operations, which are much smaller than those associated with their lending and investing activities. Over the past ten years more than a dozen assessment methodologies have been developed by financial institutions and advocacy groups; however, the level of assessment and subsequent reporting remains low. One reason is the lack of an internationally accepted accounting method tailored to the needs and characteristics of the financial sector. This guidance from GHG Protocol and UNEP FI will directly address this gap.

The *GHG Protocol/UNEP FI Financial Sector Guidance* will create a robust, harmonized approach to GHG accounting in the financial sector, which will facilitate greater transparency and a better-informed dialogue among all interested stakeholders.

The launch of this initiative follows an extensive, eight-month scoping exercise that affirmed the need for this guidance. The *GHG Protocol Financial Sector Guidance* will be developed over the next two years through an inclusive, multi-stakeholder process. The guidance will be a supplement to the *GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard*, and will also build on the relevant methodologies that already exist.

While GHG inventory information has value for some stakeholders, the extent to which it can inform FIs about the 'carbon risk exposure' of their investments and loans remains unclear at this stage. Therefore, in addition to the primary objective of developing GHG accounting guidance, a separate but

complementary work stream will focus on developing practical guidance to enable FIs to assess carbon asset risks in their equity, bond and loan portfolios. This guidance could include:

- Articulation of the types of carbon risks (e.g., regulatory, reputational) that could pose financial threats to investments;
- Actionable approaches to enable FIs to evaluate whether currently-held financial positions are exposed to carbon risks, and, the degree of such risks;
- Practical advice on how FIs could develop approaches to consider carbon risks when making investment decisions; and
- Recommendations on how FIs could disclose information about their carbon risk assessment and management efforts.

Call for Technical Working Group Participation

Technical Working Groups (TWGs) will be established to develop the content of the guidance. Members of the technical working groups will develop the technical content of the guidance in collaboration with GHG Protocol and UNEP FI. In general, participation will require TWG members to actively participate and share technical expertise during conference calls and occasional in-person workshops and review and revise draft materials (a more detailed description of the time commitments is contained below). We are seeking participants with considerable experience with the technical issues under consideration.

Technical Working Group Structure

The structure of the Technical Working Groups was established at the first Advisory Committee meeting. The TWGs will be structured around the types of underlying entities that the financial intermediaries are lending to or investing in (companies, projects, governments and consumers). There will be an additional TWG that addresses some of the cross-cutting issues that relate to all the groups.

There will also be a fifth TWG to develop guidance on assessing carbon asset risk. This guidance will be developed in parallel with the emissions accounting guidance but will be published as a separate document.

Technical Working Group 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).

Technical Working Group 2: Governments: Includes government bonds; municipal bonds and government loans (lending to governments)

Technical Working Group 3: Consumers: Includes mortgages and personal loans

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

Technical Working Group 5: Carbon asset risk: This separate but complementary Technical Working Group is focused on developing practical guidance to enable FIs to assess carbon asset risks in their equity, bond and loan portfolios

Composition

- **TWG Members:** Each technical working group will consist of approximately 20 experts from financial institutions, academia, business, consulting, and NGOs with technical backgrounds in quantifying GHG emission associated with lending and investments, or related fields.
- **TWG Chairs:** A TWG Chair will be chosen to facilitate the work group along with a WRI, or UNEP FI facilitator. The TWG Chair may come from any relevant organization. The main requirement to be

chosen as a Chair is to have previous experience with GHG accounting for lending and investment portfolios and can make a significant time commitment to the effort.

Responsibilities

- For the set of technical accounting issues designated to the group:
 - review relevant existing methodologies and practices;
 - analyze the issues and challenges; and
 - develop recommendations around content of guidance
- Draft sections of text on the designated topics (optional) and review draft text at frequent intervals
- Receive and respond to feedback on draft chapters from the Advisory Committee

Commitment

Technical working group members are requested to make a two year commitment to participate in the guidance development (i.e., early 2014 – late 2015). This is expected to involve:

- 2 conference calls of approximately 90 minutes each per month between January 2014 and January 2015, with optional participation in additional conference calls in sub-groups as needed;
- 1 in-person meeting in mid-2014;
- Occasional conference calls in 2015 (e.g., 3-4 per year);
- 1 in-person meeting in 2015, if needed; and
- The necessary time to prepare and review materials (approx. 5-10 hours per month between January 2014 and January 2014)

Acknowledgement

Members of the Technical Working Groups will be acknowledged as Technical Working Group Members and listed by name and affiliation in the final publication. If preferred, TWG members may request that their names are not listed.

Technical Working Group Sign-Up

If you are interested in joining the Technical Working Groups, please fill in the online form which is available at: http://www.surveymonkey.com/s/Financial_Sector_TWG_Survey

Contact Information

Cynthia Cummis, ccummis@wri.org 202-729-7846

Remco Fischer, remco.fischer@unep.org +41 229178685

Appendix: GHG accounting and reporting guidance for financial intermediaries outline (DRAFT)¹

PART I: GENERAL INFORMATION

1. Introduction
 - 1.1. Introduction
 - 1.2. What is the Greenhouse Gas Protocol; what is UNEP FI?
 - 1.3. Purpose of this guidance
 - 1.4. Relationship to GHG Protocol Standards, including the Corporate Value Chain (Scope 3) Standard and the Project Protocol
 - 1.5. Who should use this guidance
 - 1.6. Scope of the guidance
 - 1.7. How was this guidance developed?
2. Business goals
3. Accounting and reporting principles
4. Summary of accounting and reporting recommendations

PART II: KEY ACCOUNTING CONCEPTS

5. Key concepts
 - 5.1. Setting organizational boundaries
 - 5.2. Time boundaries (may include a focus on potential future emissions from fossil fuel reserves, see also appendix 1)
 - 5.3. Allocating emissions
6. Collecting data
 - 6.1. Guidance for prioritizing data collection efforts
 - 6.2. Overview of data types
 - 6.3. Data collection guidance
 - 6.4. Data uncertainty
 - 6.5. Assurance
 - 6.6. Frequency of updates

PART III: COMPANIES AND PROJECTS

7. Accounting guidance by investment type²
 - 7.1. Corporate stocks
 - 7.2. Corporate bonds
 - 7.3. Corporate loans
 - 7.4. SME loans
 - 7.5. Project finance
 - 7.6. Project bonds
 - 7.7. Financial advisory services (e.g., underwriting) (Inclusion TBD)

PART IV: GOVERNMENTS

¹ The Carbon asset risk guidance will be published in parallel to the accounting guidance, but as a separate document

² For each investment type, the following guidance will be provided: 1) description (2) boundaries (3) calculation guidance including activity data and emissions factors (4) examples

8. Accounting guidance by lending type
 - 8.1. Government bonds
 - 8.2. Municipal bonds
 - 8.3. Government loans (lending to governments)

PART V: CONSUMERS

9. Accounting guidance by lending type
 - 9.1. Mortgages
 - 9.2. Personal loans

PART VI: TRACKING AND REPORTING GUIDANCE

10. Setting a GHG reduction target and tracking emissions over time
11. Developing and using performance metrics
12. Reporting guidance
 - 12.1. Required reporting elements
 - 12.2. Recommended reporting elements

PART VII: GUIDANCE FOR INTERPRETING DATA

13. Data interpretation by internal users
14. Data interpretation by external stakeholders
 - 14.1. What the data can be used for
 - 14.2. What the data should not be used for

APPENDICES

15. "Avoided" emissions (Inclusion TBD)
16. Potential future emissions from fossil fuel reserves (Inclusion TBD)

NOTES

17. Abbreviations
18. Glossary
19. References
 - 19.1. Methodologies reviewed in developing this guidance
 - 19.2. Other references
20. Recognitions