

6.5

EMISSIONS ACCOUNTING

Fundamentals of financed emissions

Important notice

This unit is part of a package of learning materials designed to support understanding of foundational concepts relating to climate-related financial disclosures. These learning materials do not constitute application or regulatory guidance for the preparation of climate-related financial disclosures and are not intended to represent legal or professional advice. We encourage you to seek your own professional advice to find out how the *Corporations Act 2001* (Corporations Act) and other relevant laws may apply to you and your circumstances, as it is your responsibility to determine your obligations and comply with them.



Key topics

- › Financed emissions

Relevance for climate-related disclosures

Understanding financed emissions will help entities in their climate-related disclosures. Financed emissions are part of Scope 3 greenhouse gas emissions Category 15 (Investments) under the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

In this unit, you will learn foundational concepts on financed emissions.

Overview

Financed emissions are the portion of gross Scope 3 greenhouse gas emissions of a reporting entity that are emitted by an investee or counterparty that the reporting entity financed through loans and investments

When considering greenhouse gas emissions, including financed emissions, you may find it useful to familiarise yourself with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004). Depending on the specific circumstances of your entity, you may find the [Global GHG Accounting and Reporting Standard for the Financial Industry](#), published by the Partnership for Carbon Accounting Financials (PCAF), a useful resource.

Understanding financed emissions

Entities participating in financial activities such as investment activities, asset management, commercial banking, and insurance, may face climate-related risks and opportunities linked to the emissions of the companies and activities they finance or invest in.

High greenhouse gas emitting entities that are investees or counterparties of a reporting entity may be exposed to climate-related transition risks that are due, for example, to stricter regulations, shifting technologies or market demand. These changes can lead to various risks for entities participating in financial activities such as credit risk, market risk, reputational risk and other financial and operational risks. For instance, a bank may face credit risk if it has lent money to a company with emissions-intensive activities that faces financial difficulty due to the introduction of further policy measures to curb emissions. Climate-related transition risks are covered in Module 4, Units 1-8.



ASIC
Australian Securities &
Investments Commission



Australian Government
Australian Accounting Standards Board



Financed emissions are the portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by the reporting entity to the investee or counterparty. Such emissions are Scope 3 Category 15 (Investments) as defined in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) (GHG Protocol Scope 3 Standard)¹.

These emissions are not produced by the entity itself, but by the investees or counterparties it funds. They arise from the activities of companies or projects that an entity supports through financial activities like loans, insurance policies or investments. Financed emissions typically include the Scope 1 and 2 emissions of the investee, and in some cases, the Scope 3 emissions of an investee if these are significant compared to other sources of emissions.

If you are an entity that participates in financial activities such as asset management, commercial banking, or insurance, your emissions inventory will likely already include financed emissions as part of your Scope 3 greenhouse gas emissions. However, any entity that engages in investment activities may need to include financed emissions as part of its Scope 3 greenhouse gas emissions, even if it does not operate within the asset management, commercial banking or insurance industries.

Calculating financed emissions

Financed emissions are typically calculated using the following inputs:

- › asset class—for example, listed equity, corporate bonds, business loans or project finance
- › financial exposure—the amount of money invested in or loaned to the entity
- › emissions—using reported emissions of the investee/borrower, or if not available, estimated emissions (for example, using physical activity data and emission factors)
- › attribution factor—the financial institution takes responsibility for a portion of the emissions of the investee or counterparty based on how much money it has invested or loaned in relation to, for example, the total value of the company, calculated using an attribution method, and
- › data sources—financial institutions use annual reports, public databases and modelling tools

For example, if a bank lends \$100 million to a coal company that emits 1,000,000 tonnes of CO₂ annually, and the bank's loan represents 10% of the company's total enterprise value including cash (EVIC), the bank would attribute 100,000 (1,000,000 x 10%) tonnes of CO₂ as its financed emissions in relation to this investment.

Entities that need to calculate financed emissions may find the [Global GHG Accounting and Reporting Standard for the Financial Industry](#), published by the Partnership for Carbon Accounting Financials (PCAF) a useful resource. PCAF is a framework that provides methods for calculating financed emissions across different asset classes such as corporate loans and bonds, project finance and listed equity and debt. Methodologies for calculating financed emissions continue to evolve.

Key takeaways

- › Financed emissions are a type of Scope 3 greenhouse gas emission relevant for entities participating in financial activities. Financed emissions are the portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by the reporting entity to the investee or counterparty.
- › Methodologies for calculating financed emissions exist and are evolving but generally involve an attribution of emissions based on the relative financial exposure of the entity.

Sources

¹ GHG Protocol, [Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard \(2011\)](#)