A climate strategy for Banks:
Know your financed emissions

What are financed emissions?

Banks finance all sorts of companies through loans and investments. The financed companies use these loans and investments to expand their production or develop new products. These expansions and developments can contribute to emissions of greenhouse gases. Particularly companies like utilities, coal-fired power plants and car manufacturers cause considerable greenhouse gas emissions. If banks finance these kinds of companies, the emissions caused by the companies are indirectly made possible by the banks. That is why these emissions are considered to be the 'financed emissions' of the banks.

This brief guide wishes to provide banks with information and inspiration on methods to lower their financed emissions and by doing so, help solve the climate crisis.

Why monitor financed emissions?

The principle is simple: banks measuring and monitoring their financed emissions know their current status and can establish if they are heading in the right direction. Here are some good reasons why banks should monitor their financed emissions:

- **Performance indicator**. Banks want to play their part in solving one of humankind's most urgent challenges: climate change. If a bank has developed a climate strategy, how will it know if it is working? Measuring and monitoring the bank's financed emissions provides a relevant, quantifiable performance indicator.

- **Risk of falling behind**. Banks don't want to be a fossil in the low carbon future. The world is rapidly decarbonizing, government leaders are calling for reduction in carbon emissions beyond 80% by 2050 and the ambitions seem to grow every year. Even the conservative International Energy Agency is calling for an energy revolution. Climate regulation will dramatically alter the economic landscape for many of a bank's clients.

- **Public relations**. Environmental organizations are increasingly confronting banks with the climate impacts of their investments. Banks can be ahead of these developments. Conversely, superior results on the bank's climate footprint can be a selling point.

How to monitor financed emissions

There are many ways to get insight into the actual financed emissions. BankTrack recommends the following:

1. Just do it. There may not yet be a perfect one-size-fits-all methodology, but there is plenty to be learned from the tools already available (see showcase for inspiration).
2. Be comprehensive. Monitor your financed emissions across financial operations: equity, loans, project finance, etc.
3. Count your client' s scope 3 emissions[1]. This gives a better picture of whether or not your investments are tied up in the carbon intensive economy.
4. Involve NGOs and other stakeholders in the process to grow acceptance.
5. Be transparent, share your findings with NGOs and the wider public.
6. Encourage your clients to improve reporting on GHG emissions.
7. Attribute emissions proportionally. Your financed emissions should be proportional to your involvement with your client[2]. Utopies' 'credit share' approach is a good example.
8. Once quantified, set performance targets. This could be a simple total reduction, or a reduction relative to an appropriate benchmark.
9. Contribute to further development of methodology. There is much work to be done to develop a unified methodology.

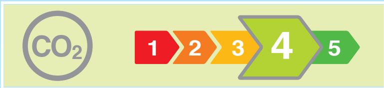
1) This would entail that for example when financing a carmanufacturer, you count not only the emissions from production of cars, but the entire life-cycle including the driving.
2) So, as an illustration, if you hold 3% of shares in a client, you'd count 3% of their emissions towards your financed emissions.

Showcase

Utopies

French bank Caisse d'Epargne, in cooperation with NGO stakeholders, and guided by Utopies consultancy, has introduced CO_2 labeling of savings products based on financed emissions.

Each savings product was analyzed in order to identify the activities financed with the funds collected. Next, the carbon footprint of each activity was assigned to the savings products in proportion to the financing they provided. Finally, each savings product was assigned a carbon intensity expressed in CO_2/Euro invested.



Trucost

UK Consultancy Trucost has developed a comprehensive methodology for measuring financed emissions for equities. In their 'Carbon Counts' reports Trucost ranks the carbon intensity of some 200 UK investment funds.

The Dutch ASN bank has employed this approach and publishes the annual results for three main funds on their website, tracks performance versus index funds and versus previous years. ASN bank has in 2010 implemented internal performance indicators based on these indicators for their financial analysts.

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