

The following comment is submitted on behalf of the Partnership for Carbon Accounting Financials (PCAF) Secretariat. PCAF is an industry-led collaborative initiative involving over 500 financial institutions worldwide. The initiative aims to establish and implement a standardized methodology for assessing and disclosing greenhouse gas (GHG) emissions associated with financial activities. Through the development of the Global GHG Accounting & Reporting Standard (Part A), PCAF provides financial institutions with a consistent, transparent, and harmonized approach to quantifying and reporting GHG emissions from their financial activities under Scope 3, Category 15 called financed emissions.

PCAF recognizes the importance of creating a disclosure framework for Hong Kong's financial industry and emphasizes the critical need to integrate a reference to the PCAF Global GHG Accounting & Reporting Standard within this framework.

PCAF stresses the necessity of including Scope 3 disclosure requirements, specifically those for financed emissions, in the disclosure framework. For financial institutions, financed emissions constitute a significant majority of their GHG footprint. Excluding these emissions would result in an incomplete representation of their overall impact and obscure related risks and opportunities. For example, financed emissions are essential inputs for conducting climate scenario analyses, making them a vital metric for understanding and managing climate-related transition risks and opportunities.

PCAF acknowledges the difficulties in collecting and disclosing Scope 3 emissions data, particularly for smaller institutions with limited resources. Rather than deviating from IFRS S1 and S2, PCAF advocates for providing additional support and resources (e.g. data sources and data collection technology) to help Hong Kong's financial institutions meet these standards. By incorporating the PCAF Global GHG Accounting & Reporting Standard into Hong Kong's disclosure framework, clear guidance would be provided on accounting for financed emissions. PCAF also focuses on implementing the PCAF at a regional level, enabling peer-to-peer collaboration between members and recognizing regional differences and needs. Each team receives technical assistance to implement GHG accounting and reporting at no cost. There are many benefits to collaborating with other financial institutions also learning to track and disclose the GHG footprint of their lending and investment activities. Institutions can learn from their peers and work together to develop industry best practice that works for all.

PCAF offers various calculation methods tailored to the availability of data across different financial institutions. Institutions with varying levels of data maturity can calculate their financed emissions using this standardized methodology. The PCAF data quality score, which ranges from 5 (least accurate) to 1 (most accurate), enables institutions to consistently measure and communicate the reliability of their data to stakeholders.

PCAF asserts that data limitations should not deter financial institutions from beginning their GHG accounting efforts. Data quality is expected to improve over time, and institutions should strive to use the highest quality data available. The PCAF Standard offers flexible options for accounting across asset classes with different data availability, ensuring that institutions can calculate financed emissions in a standardized, consistent, and transparent manner, regardless of their data maturity level.

PCAF proposes to add a comment or footnote to the recommendation to disclose the disaggregated Scope 3 greenhouse gas emissions in accordance with the Scope 3

categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

“An entity shall disclose the disaggregated Scope 3 greenhouse gas emissions by categories relevant to the activities of the reporting entity in accordance with the Scope 3 categories described in the Greenhouse Gas Protocol. The Partnership for Carbon Accounting Financials (PCAF) offers the Global GHG Accounting & Reporting Standard for the Financial Industry which builds on the Greenhouse Gas Protocol and extends the methodology for the financial industry to measure greenhouse gas emissions associated with financial activities (Scope 3, Category 15).”

The following rationale further justifies the recommended inclusion of the footnote and the relevance of an international standard for the reporting of Scope 3 Category 15 emissions.

PCAF’s Global GHG Accounting & Reporting Standard Part A offers a globally applied methodology to calculate financed emissions. Measuring financed emissions is central to activities that enable financial institutions to embed climate action throughout their lending and investment activities. Reporting financed emissions is important for showing stakeholders the climate impact of a financial institution’s activities. Furthermore, the act of making a public disclosure shows that the organization holds itself accountable for these impacts.

Financed emissions are a necessary input for climate scenario analysis. As such, financed emissions are a key metric for financial institutions that want to understand and manage climate related transition risks and opportunities. PCAF focuses on standardizing the measurement and reporting of emissions associated with loans, investments, insurance liabilities and other financial products and services. A globally applied standard is crucial to ensure comparability between calculated emission numbers. The PCAF standard Part A offers different calculation methodologies to calculate financed emissions for different asset classes. This enables the financial sector to report on Scope 3 Category 15 emissions for various assets of their portfolio, including listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages, motor vehicles loans and sovereign bonds. PCAF is constantly working on expanding the calculation methodologies.

The PCAF Standard plays an enabling role for international sustainability reporting and disclosing standards by enabling the reporting of Scope 3 Category 15. Firstly, **PCAF complements the Greenhouse Gas Protocol**, which offers guidance for GHG accounting for Scope 1, Scope 2, and Scope 3. The Greenhouse Gas Protocol currently does not offer a detailed calculation methodology for Scope 3, Category 15. PCAF's methodology is closing this gap by providing a common methodology and guideline for financial institutions to calculate emissions associated with financial activities – which also received the ***Built-on Greenhouse Gas Protocol*** mark. Secondly, **PCAF Standard is referenced by the Task Force on Climate-Related Financial Disclosures (TCFD)** for the disclosure of GHG emissions of lending and other financial activities. The TCFD states that emissions "should be calculated in line with the Global GHG Accounting and Reporting Standard for the Financial Industry developed by the Partnership for Carbon Accounting Financials (PCAF Standard) or a comparable methodology" (Metrics and Targets - TCFD Knowledge Hub).

Thirdly, **PCAF's Global GHG Accounting & Reporting Standard assists with complying with the International Financial Reporting Standards (IFRS)**, enabling financial institutions to disclose their financed emissions in accordance with IFRS S1 and S2 standards for

loans, project finance, and investments. A guideline for disclosures of undrawn loans is currently up for development.

Moreover, IFRS observed in their effects analysis ([effects-analysis.pdf \(ifrs.org\)](#)) the "rapidly expanding support of the GHG Protocol Corporate Standard and membership in the PCAF". According to this effects analysis, companies applying the PCAF Standard are likely to face lower costs of implementing IFRS S1 and S2, if they have the necessary processes and systems in place.