

Decarbonizing the Financial Sector

Financed and Facilitated Emissions

KPMG Netherlands

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What are Financed and Facilitated Emissions?

Emissions originating from Financial Institutions' on-balance sheet exposure from lending and investment activities are termed as financed emissions, whereas facilitated emissions are generated from off-balance sheet activities, such as underwriting and other capital market issuance activities. These emissions form a significant part of FIs' scope 3 emissions related to Category 15 as per the GHG Protocol.

What are the industry trends?

Financial sector actors such as banks are increasingly aligning with global net zero commitments such as the goals of the Net Zero Banking Alliance (NZBA), which is dedicated to achieving net zero emissions by 2050 in line with the Paris agreement. Financial Institutions (FIs) are making efforts to measure financed/facilitated emissions baseline, mostly in accordance with the globally accepted standard of the Partnership for Carbon Accounting Financials (PCAF).

With better overview of high-emitting financing activities, sectors, and asset classes, actors in the financial industry are setting their emission reduction targets as per global initiatives, such as the SBTi or as per NZBA guidance, to manage and mitigate their low-carbon economy transition-related risks. These targets are now increasingly getting embedded in overall business strategies such as the Climate Transition Action Plan with recommendations from the Glasgow Financial Alliance for Net Zero (GFANZ).

Industry Drivers for FI's Decarbonization^a

140 banks, 45 countries



452 financial institutions disclosed and committed globally



500+ members, 45 countries




80+ financial institutions' targets are validated

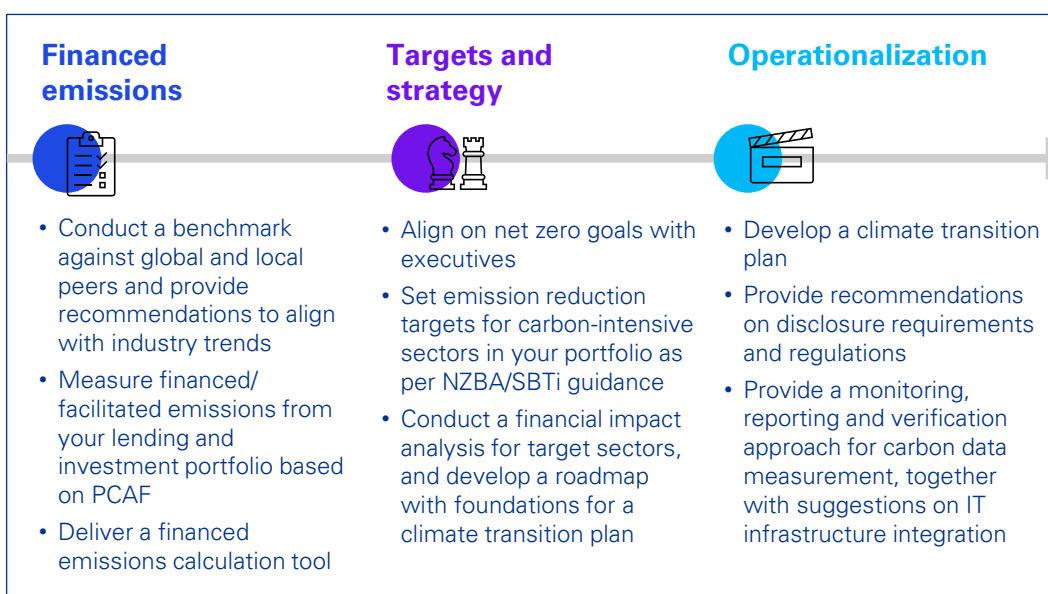


Note: (a) Update as of April 2024.

What are the key challenges?

The financial sector is currently grappling with multi-dimensional and multi-layered challenges. On the one hand, they are expected to expand their capabilities on measuring financed emissions, establish a robust climate data infrastructure and offer new services and products, and on the other hand they have to strengthen customer relationships and support their transition as well. Some of these challenges are highlighted as follows:

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Inconsistent data coverage & quality Unaudited data and inconsistent data availability, granularity and quality across counterparties
- 
Resource-intensive Lack of necessary internal resources to measure and manage financed emissions effectively
- 
Inadequate technology Inadequate technology for climate accounting and data management
- 
Client relationships Need to deepen client relations to understand their emissions and support their transitions.



How can KPMG help?

KPMG can provide bespoke services to help FIs in developing an end-to-end decarbonization strategy. In this endeavor, we leverage our repertoire of tools and datasets to ensure the delivery of scientifically sound assessments and strategies.

Client story

KPMG has supported financial sector clients, including banks and insurance companies, in identifying and addressing the key challenges to help navigate the complexities in developing a robust climate strategy.

- A. Inconsistent data coverage & quality:** We reviewed the data availability of our clients' counterparties and suggested how to improve data coverage inconsistencies across different asset classes. We supported them with a step-by-step guide to improve their data quality scores with subsequent measurements.
- B. Resource-intensive:** We provided expert support to help clients measure their financed/facilitated emissions and develop internal capacities through capacity building to streamline the data calculation process.
- C. Inadequate technology:** We developed and delivered a bespoke financed emissions tool to help clients carry out their subsequent measurements. We also provided recommendations to streamline data collection, monitoring and verification processes and technology integration support in improving their climate data management capabilities.
- D. Client relationships:** To ensure that our clients are able to implement their climate strategy, we suggested developing a comprehensive engagement strategy for their counterparties in order to understand their existing ambitions, goals, planned actions, and how FIs can support their transition as well.

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