Managing financed emissions in 6 steps

GUIDE

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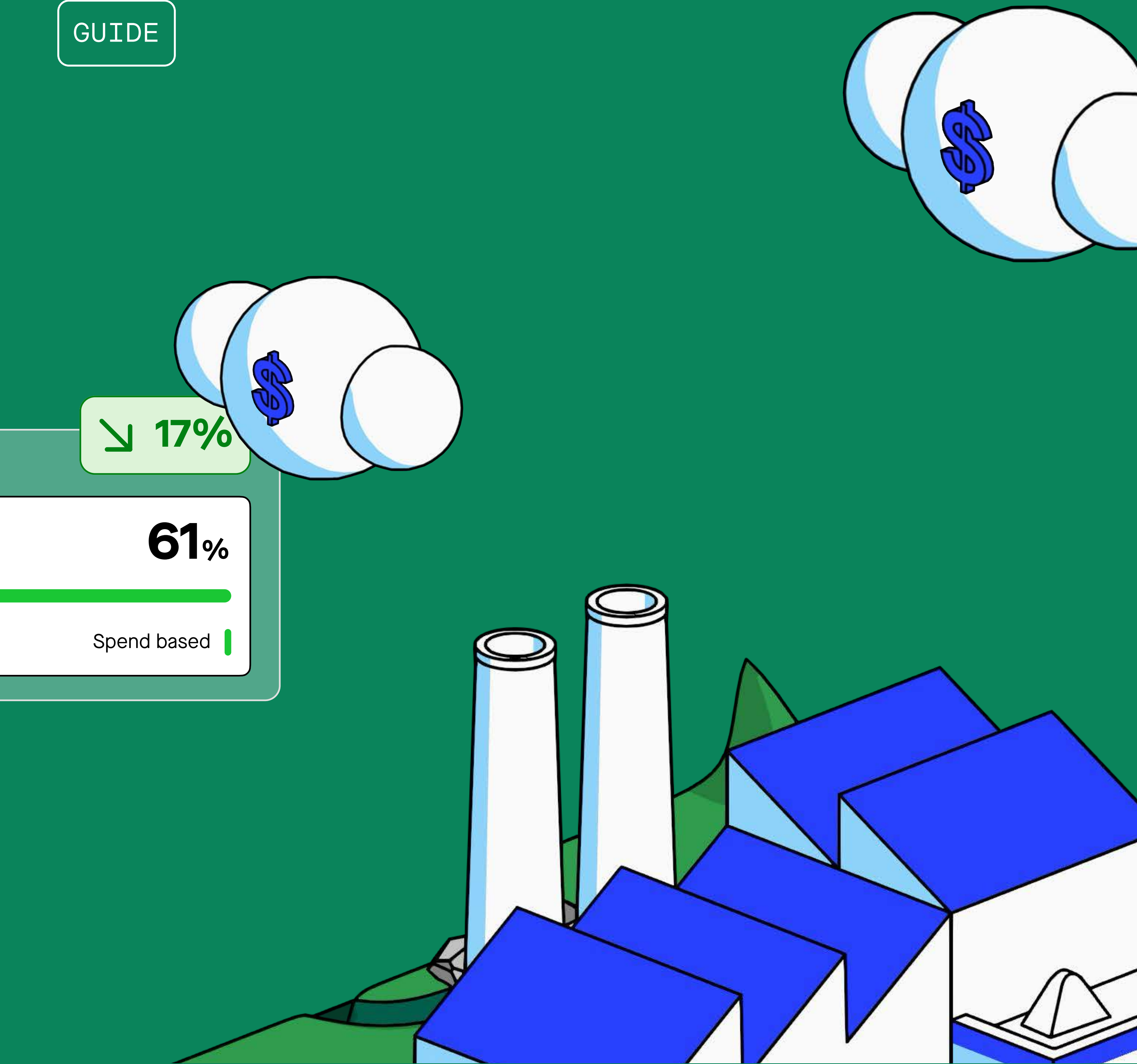

What's inside:

01 Introduction

02 What are financed emissions?

03 Understanding PCAF: the leading standard for measuring financed emissions

04 6 steps to measuring and managing financed emissions

05 The business benefits of measuring financed emissions

06 Looking ahead: The future of financed emissions management

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01 Introduction

Climate change presents an escalating financial risk, and as a leader in the financial sector, you hold a pivotal role in addressing it. Through the capital you direct across industries, you influence the global carbon footprint in ways that are often indirect but profound—these are your financed emissions.

Financed emissions are typically 700 times greater than a financial institution's own operational emissions, making them the primary focus of climate risk management. Investors, regulators, and NGOs are closely scrutinizing how financial institutions align their portfolios with net-zero commitments. Understanding and managing financed emissions is no longer optional—it's essential for risk management, regulatory compliance, and long-term business resilience.

02 What are financed emissions?

Financed emissions refer to the greenhouse gas (GHG) emissions linked to your lending, investment, and insurance activities. Unlike operational emissions, which come from your own energy use and direct operations, financed emissions stem from the companies and projects you fund.

These emissions fall under Scope 3, Category 15 of the Greenhouse Gas (GHG) Protocol and are often the largest part of your institution's total carbon footprint. By measuring and managing your financed emissions, you can reduce climate-related risks, meet regulatory requirements, and future-proof your portfolio.

For further reading, you can explore the GHG Protocol’s guidance on financed emissions here.

03 Understanding PCAF: the leading standard for measuring financed emissions

The Partnership for Carbon Accounting Financials (PCAF) is the globally recognized standard for measuring financed emissions. Established by financial institutions, PCAF provides a consistent methodology to quantify emissions across asset classes, ensuring transparency and comparability.

The PCAF methodology

450+

Over 450 financial institutions globally have committed to PCAF

1. **Data hierarchy:** Uses different data quality scores, prioritizing actual reported emissions over estimates.
2. **Attribution formula:** Allocates emissions proportionally to a financial institution's share of ownership or financing.
3. **Asset-class coverage:** Defines specific methods for loans, bonds, equities, mortgages, and commercial real estate.
4. **Portfolio aggregation:** Allows institutions to roll up emissions data to assess their total financed emissions impact.
5. **Scenario analysis:** Encourages firms to align their portfolios with climate targets using science-based pathways.
6. **Disclosure requirements:** Ensures standardized reporting for transparency and accountability.

Over 450 financial institutions globally have committed to PCAF, making it the de facto standard for measuring financed emissions. Learn more at the official PCAF website here.

"Not only is accurate measurement and reporting essential to building our own strategy, but it's also increasingly important from a regulatory perspective – particularly for our own investors, some of whom fall in the scope of key climate regulations."

Elodie Broad
Head of Impact & ESG at Balderton

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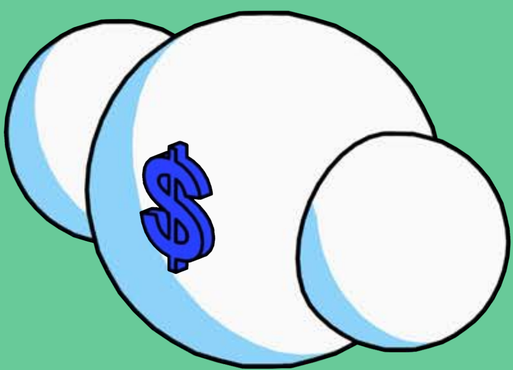


04 6 steps to measuring and managing financed emissions

Effectively addressing financed emissions requires a structured approach. Here are the steps you should take to measure and manage them.

1. Engage investee companies for better data

Accurate data is critical for measuring financed emissions. Many firms struggle with data gaps, but improving transparency is possible through:

- **Automated data collection** tools that integrate with investees' reporting systems.
- **Surveying portfolio companies** to obtain direct emissions data.
- **Leveraging proxy estimates** where necessary, while prioritizing actual reported data per PCAF guidelines.

2. Identify hotspots in your portfolio

Not all investments contribute equally to financed emissions. Research suggests that **20% of portfolio holdings typically account for 80% of financed emissions**. Prioritizing these hotspots—such as carbon-intensive industries—allows firms to focus their efforts where they'll have the greatest impact.

Better data improves a firm's **PCAF quality score**, enhancing the credibility of financed emissions reporting.

20-80

20% of portfolio holdings typically account for 80% of financed emissions

3. Set and share climate targets

Reducing financed emissions requires active collaboration with investee companies. Financial institutions should:

- Align their financing with n**et-zero by 2050 pathways**.
- Encourage investees to set **science-based targets (SBTs)**.
- Engage companies on **transition finance**, helping them shift to low-carbon business models.

Transparency around these commitments fosters collective action and strengthens financial institutions' reputations among investors and regulators.

4. Track progress with standardized metrics

Financial institutions need consistent metrics to assess and manage their emissions trajectory. Leading frameworks include:

- **PCAF metrics** for measuring financed emissions.
- **Temperature alignment scores** to evaluate portfolio climate alignment.
- **Carbon intensity benchmarks** to compare investments against industry averages.

Using these standardized metrics ensures comparability and enables institutions to report progress credibly.

5. Integrate financed emissions into risk management

A **stranded asset** is an investment or resource that has lost its value or become obsolete before the end of its expected life, often due to changes in regulation, market shifts, or environmental factors.

Financed emissions are not just an environmental concern—they're a financial risk. Firms need to assess how their portfolios are exposed to:

- **Stranded asset risks**, where carbon-heavy investments lose value.
- **Regulatory risks**, as policies tighten around high-emission sectors.
- **Reputational risks**, as stakeholders demand stronger climate commitments.

By embedding climate risk analysis into credit and investment decisions, financial institutions can future-proof their portfolios.

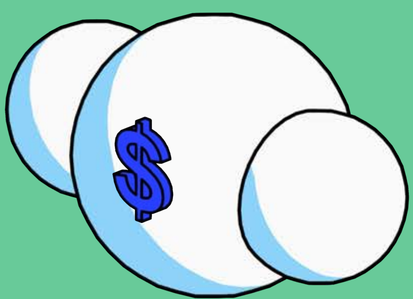
6. Leverage ESG software for seamless management

Managing financed emissions across complex portfolios can be challenging. The right **ESG reporting software** can streamline data collection, enhance reporting accuracy, and provide actionable insights.

Investing in robust ESG tools makes compliance easier, strengthens stakeholder trust, and improves overall climate performance. **Here's a guide to help you secure leadership buy-in.**

"Sweep has allowed us to save time and energy. We can focus much more on data quality, instead of discussing how to collect the data. Previously we had dozens of spreadsheets all over the place, but now we have won back all of that time."

Virginie Verlynde
Sustainability Manager



05 The business benefits of measuring financed emissions

Beyond regulatory compliance, measuring financed emissions offers tangible business advantages:

- **Stronger risk management:** Identifies exposure to high-carbon assets and stranded asset risks.
- **Competitive edge:** Attracts investors prioritizing ESG-aligned portfolios.
- **Regulatory readiness:** Prepares firms for evolving disclosure requirements (e.g., CSRD, SEC climate rules).
- **Improved client relationships:** Helps engage investees on transition strategies, strengthening long-term partnerships.
- **Cost savings:** Optimizes capital allocation by reducing exposure to volatile carbon-intensive sectors.

Firms that proactively address financed emissions position themselves as sustainability leaders, ensuring resilience in a rapidly changing financial landscape.

06 Looking ahead: the future of financed emissions management

Regulatory shifts, investor pressure, and climate realities will continue shaping how financial institutions manage financed emissions. With tools like PCAF, standardized metrics, and ESG software, institutions can turn climate risk into opportunity.

Now is the time to act. The financial sector has the power to drive the transition to a low-carbon economy—one investment at a time.

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How Sweep can help

Sweep is a carbon and ESG management platform designed to help financial institutions manage and reduce their financed emissions while meeting sustainability goals.

With our platform, you can:

✓ Conduct a thorough assessment of your financed emissions, understanding the full environmental impact of your lending, investment, and insurance activities.

✓ Gain real-time insights into the carbon footprint of the companies and projects you fund, ensuring they align with your sustainability objectives.

✓ Achieve full compliance with key ESG regulations, including the SFDR and CSRD, in a matter of weeks.

✓ Ensure the reliability of your sustainability data by having it independently verified before making it public, building trust with stakeholders and investors.

"Sweep's emission monitoring dashboards make it easy for asset managers to communicate and answer questions from our investors about financed emissions, carbon intensity, and data quality. The software enables us to filter by branch, by fund, or by company, which will be useful to simulate different reduction scenarios."

Emilie Huyghues Despointes
ESG Officer at MV Credit

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The leading sustainability data management platform.

sweep.net

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