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Greenhouse Gas Sustainability Developments

PCAF updates its Financed emissions and Insurance-associated emissions standards

What you need to know

- On 2 December 2025, PCAF issued an update to its Financed emissions (Part A) and Insurance-associated emissions (Part C) standards.
- The scope of Part A expands new methodologies for Use of Proceeds structures, securitization and structured products, sub-sovereign debt, as well as reporting on undrawn loan commitments.
- Supplementary guidance to Part A has been issued covering financed avoided emissions and forward-looking metrics.
- The Part C update includes two new methodologies for treaty reinsurance portfolios and project insurance.

Overview

On 2 December 2025, the Partnership for Carbon Accounting Financials (PCAF) issued updated guidance for measurement of Scope 3 Category 15: Investments emissions across its Part A: Financed Emissions and Part C: Insurance-associated emissions standards, following a public consultation held from November 2024 to March 2025.

The updated Financed Emissions standard introduces methodologies for three additional asset classes, bringing the total coverage to ten, enabling a more comprehensive view of climate impact across financial institutions' balance sheets. Additionally, guidance for reporting on undrawn loan commitments has been added to bridge gaps with IFRS S2 *Climate-related Disclosures* reporting requirements.

PCAF has also released supplemental guidance to Part A of the PCAF Standard on financed avoided emissions and forward-looking metrics, reflecting growing interest in alternative metrics to better represent transition activities. Reporting on emission removals and avoided emissions must always be separate from that of the financial institution's scope 1, 2, and 3 GHG inventories.

The updated Insurance-associated Emissions standard adds methodologies for Treaty reinsurance portfolios and Project insurance, expanding beyond the previous focus on Commercial lines and Personal motor lines, to allow insurers and reinsurers to better account for the impact of their products.

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Key updates to Part A: Financed emissions

Use of Proceeds (UoP) structures

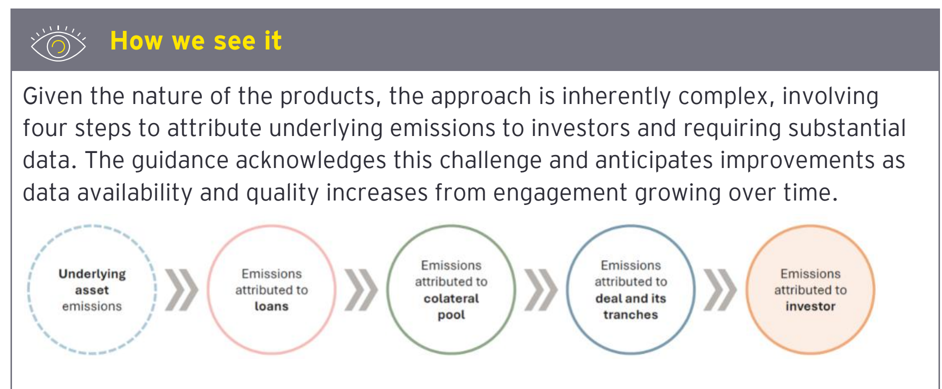
The methodology for UoP structures allows lenders to account for specific assets financed under UoP debt or equity structures consistent with PCAF's 'follow the money' approach.

The method differentiates the roles of issuers and investors. Issuers calculate emissions of the full structure, whereas investors apply two attribution factors to account for their investment provision: one to account for the attribution of asset emissions to the structure, and the other to account for the attribution of their investment to the structure as a whole. Emissions attributable to facilitation of the issuance is not covered, but may be included in future editions of Part B: Facilitated Emissions.

The methodology also distinguishes between separate structures, where financed emissions are calculated for allocated amounts only, and Integrated structures, where both allocated and unallocated amounts are considered. As a result, for separate structures, financed emissions only arise once funds are allocated.

Securitization and structured products

The complex structure and asset pooling of securitization and structured products makes it challenging to 'follow the money'. The method covers a broad range of roles played, as well as products and underlying collateral types, but cannot be applied where the nature of the collateralised assets is unknown.



The methodology and data scoring leverages PCAF methodologies for other asset classes where the underlying asset is relevant (e.g., Motor vehicles for asset backed auto loans).

Conversely from these other methodologies, the methodology for securitization and structured products incorporates credit loss considerations in the form of principle deficiency ledgers and write-downs, for which attribution calculations are net of losses allocated to the tranche. However, for loan defaults, it is specified that asset value at origination should be used until the loan is removed from the pool.

Sub-sovereign debt

Sub-sovereign debt covers bonds and loans issued by regional, city or local governments. The methodology builds on the existing Sovereign debt methodology following a similar calculation approach. Once again, PCAF recognises that data is limited in this space, both in terms of country coverage and emissions scopes, but emphasizes the need to signal the importance of GHG accounting for sub-sovereign debts.

The methodology of this asset class specifies that financial institutions are required to report sub-sovereign borrowers' Scope 1 GHG emissions and recommends reporting Scope 2 and 3 GHG emissions, with clarifications provided on the different scopes of emissions for sub-sovereign debts. Although it should be noted that the 'requirement' here is specific to PCAF and does not necessarily impact the requirements of other standards or regulations. For example, IFRS S2 requires that

entities disclose their absolute gross financed emissions, disaggregated by Scope 1, 2 and 3 GHG emissions.

Undrawn loan commitments

The calculation methodology can be used optionally by financial institutions to account for and report financed emissions of the relevant asset classes from undrawn loan commitments. Applying this methodology would allow entities to better report in line with IFRS S2 requirements, driving comparability across the sector.

The definition suggested in the guidance allows for repeated borrowing and repayment of funds, excluding most asset-backed lending, e.g., typical mortgages.

The methodology follows a similar approach to PCAF methodologies of other asset classes in terms of an attribution factor applied to investee emissions, representing the maximum potential financed emissions. Alongside this metric, financial institutions may also apply a weighting factor to consider partial commitment usage. How to calculate the weighting factor is not specified, although the methodology must be disclosed.

New reporting recommendations

PCAF made two new reporting recommendations. The first on fluctuation analysis in which a year-on-year analytical review is performed at the asset class or sector level, explaining the drivers of key movements that should be included in financed emissions reporting. The second recommendation allows for the application of an inflation adjustment to economic emission factors using inflation indices such as the Consumer Price Index (CPI).

How we see it

These updates mark a clear shift toward broader and more complete reporting coverage, but they also underscore a recurring theme: complexity and data dependency. While PCAF is moving closer to comprehensive financed emissions accounting, practical implementation will hinge on improved data quality and availability, and investee reporting and engagement. In short, the direction is positive, but execution relies on maturation of data and reporting practices.

Reporting of undrawn loan commitments has faced scepticism in the market as it diverges from PCAF's "follow the money" principle. The introduction of a weighting factor narrows the scope of reporting to loan amounts typically utilised, while still providing a framework to meet IFRS S2 requirements.

The IFRS Sustainability Disclosure Standards (ISSB Standards) do not specifically reference the PCAF Standards. The European Sustainability Reporting Standards (ESRS) currently require entities to consider PCAF Part A (2022) Standard for measuring Scope 3 category 15 GHG emissions. The ESRS are in the process of being updated, the European Commission may decide to require preparers to consider the updated PCAF Standard. As the current ISSB Standards and ESRS do not require application of the PCAF Part A (2025) Standard, entities are allowed to apply the updated Part A Standard for measuring GHG emissions with immediate effect, as long as it does not contradict the provisions in the ISSB Standards and ESRS. For entities applying PCAF, we believe it is important to disclose which edition of PCAF has been applied.

Supplemental guidance on financed avoided emissions and forward-looking metrics

PCAF have introduced guidance on forward-looking metrics in response to emerging trends in and rising market demand for consistent, credible tools to assess not just historical financed emissions, but also future climate impact. The guidance seeks to harmonize these metrics, establish standardized terminology, provide guardrails to prevent greenwashing, and support transparent disclosure.

Financed avoided emissions

PCAF provides guidance to financial institutions when they wish to report, separately from financed emissions, the positive impact of financing activities for which some financial institutions are currently reporting on through various methods, limiting comparability. The PCAF guidance differentiates between 'enabling activities' and direct 'climate solutions' which must be disclosed separately. The methodology applies an attribution factor, as per PCAF Part A, to avoided emissions of the investment or loan, applying a PCAF data score based on the source of the latter to establish the level of estimation applied.

Forward-looking metrics

The guidance on forward-looking metrics outlines two metrics: Expected Emissions Reductions (EER) and Expected Avoided Emissions (EAE). EER is used to measure a financial institution's share of a borrower's absolute GHG emissions reduction over a time horizon, accounted for in the year of contracting. EAE allows entities to capture projected emissions avoided through financing of climate solutions or projects, benchmarked against a counterfactual scenario. To support transparency in these estimated metrics, additional disclosure on data inputs is required.

Key Updates to Part C: Insurance-associated emissions

Project insurance

The methodology on Project insurance is included as 'Engineering lines' including construction all-risk and engineering all-risk for new and under-construction physical infrastructure. The methodology uses premium size to attribute emissions, compared to total project cost and or revenue for annual policies. Emissions accounted for vary by contract type and construction versus use phase.

It is acknowledged that there is a lack of publicly available or free-to-use data for construction projects. The Standard, therefore, includes considerations of use of estimation models to maximise coverage.

Treaty reinsurance portfolios

The methodology on Treaty reinsurance portfolio covers whole primary insurance portfolios of similar risks. Two methods are outlined, depending on whether data is available. The first, Method A, where data is available, attributes insurance-associated emissions of the portfolio based on the proportion of premiums ceded to the reinsurer. Method B, where data is not available, utilizes estimates, such as emissions intensity proxies based on output or revenues, attributed in the same way.

How we see it

Both added methodologies present challenges and limitations. Project insurance policies can be complex and multi-year, making emissions attribution more challenging. Whereas, for Treaty reinsurance, given reinsurers are one step further from the emissions themselves, they typically also have less influence and access to data, which adds to the complexity of the calculation.

Additionally, consistent with the previous version of the guidance, the methodologies rely on attribution based on premium size as a risk-based proxy to determine the insurer's share of emissions. While this provides a practical approach, it can portray higher risk policies (e.g., those for younger drivers) as more emissions intensive and does not account other factors, such as pricing strategies and market conditions, that also influence premium size.

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