# PCAF public consultation on new methods and guidance

Insight Investment response

February 2025

Insight Investment responded to this consultation in February 2025. More information on the consultation can be found here.

## Use of proceeds structures

**What is your overall impression of the method?**

Very positive.

**What do you like most about it?**

This new market standard will help to ensure transparency and comparability in the market as asset managers and asset owners are currently using diverging approaches to tackle the issue of calculating the carbon footprints of green bonds, or ignore this altogether. The application of this method will also more accurately reflect the actual carbon footprint/intensity of those investor portfolios that are allocating to use-of-proceeds (UoP) structures such as green bonds. It will also remove the perverse effect of the existing approach to use issuer-based emissions for UoP structures, which has led green bond portfolios and green bond indices to have higher reported carbon footprints than their non-green bond counterparts due to the lack of an industry-accepted method.

**What would have to change for you to have a better impression of the method?**

Although the guidance mentions that the UoP accounting is particularly useful for UoP structures with low-carbon assets, it does not suggest mapping emission factors to ICMA-aligned green project activities. We feel this might potentially hinder widescale adoption of an estimation methodology. Although we understand ICMA to be a voluntary standard, we would suggest PCAF refers to mapping based on this principle.

**How satisfied are you with the method? Please rate the following:**

**Ease of Understanding**

Satisfied

**Completeness**

Satisfied

**Applicability**

Very Satisfied

**Consistency**

Very Satisfied

**What would you change to make the method easier to understand/to be more complete/applicable/consistent? If yes, what changes would you make?**

In order to improve ease of understanding, more case studies as the method pertains to green bonds and sustainability bonds would be useful, such as additional project examples and the use of the suggested emission database in practice.

In order to improve completeness, we would prefer the guidance to:

- explain how to use this accounting method where EVIC is unknown and revenue-based metrics, such as WACI, need to be used;
- how the guidance can apply to sovereign green bonds as the carbon footprint of sovereign bonds is measures against GDP PPP;
- include how to treat UoP structures that have a mix of green projects and social projects (such as sustainability bonds), and whether the latter projects should be accounted for using the issuer-based emissions if they do not have separately disclosed emissions or where emission estimates are not available; and
- be more prescriptive around the adoption of an allocation percentage in cases where the actual allocation percentage is unknown (ie emission allocation at issuance of an UoP structure where projects have not been allocated yet) –

although the guidance mentions “it is conservative to assume 100%” in this scenario, we would have preferred more prescriptive guidance.

**Can you describe one or two issues that you foresee in implementing the method and which the method description didn't provide help in a sufficient way?**

The method's focus on scope shifting is unclear. The guidance can elaborate if scope shifting should just be accepted or whether any treatment is required.

**How satisfied are you with the section outlining the scope of the method and GHG accounting treatment? If not satisfied, can you elaborate on your concerns, and could you provide suggestions how these concerns could be addressed?**

The method involves several steps and might look complex for stakeholders with limited resources or experience with greenhouse gas (GHG) accounting. Additional resources and case studies might therefore be helpful to support these stakeholders to implement the method. Offering training and workshops would also help to build capacity in GHG accounting.

**How satisfied are you with the sections outlining the calculation approach for UoP structures (emissions scopes covered, attribution, equations to calculate financed emissions and data required)? If not satisfied, can you elaborate on your concerns, and could you provide suggestions how these concerns could be addressed?**

Satisfied overall.

**How satisfied are you with the section outlining the assessment boundary? If not satisfied, can you elaborate on your concerns, and could you provide suggestions how these concerns could be addressed?**

Satisfied in general. We welcome the clarification around the argument that the UoP structure in theory also has Scope 3 emissions related to purchased services from the issuer and we agree that – in order not to overcomplicate and due to the low materiality of these emissions – these can be ignored.

**How satisfied are you with the section outlining the adjustment for under-and overallocation in integrated UoP structures? If not satisfied, can you elaborate on your concerns, and could you provide suggestions how these concerns could be addressed?**

Although in theory we believe that, in order to avoid undercounting of overall emissions, the issuer's emission profile should be adjusted to exclude UoP structures such as green bonds, we appreciate the guidance only suggests this as best practice. We believe this is acceptable as the perfect should not be the enemy of the good and this more lenient stance will probably increase adoption by UoP and non-UoP investors.

**If applicable, could you provide a use case how this method could be applied within your institution?**

We aim to use this methodology for our green, and potentially our sustainability, bonds. In this context, we will aim to engage with issuers in line with the suggestions of the methodology. If reported emission data for UoP structures is not available, we will aim to use the emission factor database or external data providers emission estimates to come up with the carbon footprint of a green bond. It is likely we will take a conservative stance and assume a 100% allocation at the time of investment into the UoP structure, irrespective of whether the underlying projects have already been allocated. However, we also realise that some UoP bonds do not meet robust standards, such as alignment with the ICMA green bond principles. In those scenarios, we will not attribute a specific UoP carbon footprint due to potential greenwashing concerns around the robustness of the UoP structure.

**What do you think are the limitations of this method?**

In some cases, the assumption that the UoP structure does not generate significant emissions beyond those related to the underlying assets might not be true. It might be worthwhile to suggest that financial institutions, in those instances where they believe those emissions are material, not adopt a different approach.

The guidance does not suggest how to deal with structures that are only part UoP from an environmental perspective, such as sustainability bonds which provide a mix of green UoP and social UoP. It also does not provide guidance around how to apply this methodology for sovereign bonds.

## Accounting for projects without a separate balance sheet

**What is your overall impression of the method?**

Positive.

**What do you like most about it?**

It is appropriate that carbon accounting should not fully depend on the project being on the balance sheet or not. We agree with the follow-the-money approach that, when emissions can be ringfenced due to the nature of the project, separate carbon accounting can be applied

**What would have to change in order for you to have a better impression of the method?**

No comment.

**How satisfied are you with the method? Please rate the following:**

**Ease of Understanding**

Satisfied

**Completeness**

Satisfied

**Applicability**

Satisfied

**Consistency**

Satisfied

# Important information