

LSFI working group provides guidance for financial institutions to reach net zero, analyses 5 tools and methodologies to support the decarbonisation journey and issues recommendations to the industry.

The LSFI is pleased to release the outcome of the analysis conducted by its working group on climate measurement and reporting, composed of 11 experts from the Luxembourg-based financial institutions, consulting firms and academia. The working group's objective was to identify and assess climate-related tools that the Luxembourg financial sector could use to support its journey to net zero.

Over the last six months, the working group looked at the key steps financial institutions need to follow to reach net zero and assessed a set of tools and methodologies that can help in this regard. The objective was to understand these tools and examine their use, functionalities, and alignment with the current regulatory requirements. The main outcome of the working group is a recommendation on the most effective and practical tools to use for measurement, target setting, and disclosure.

"For the transition of the financial sector towards net zero, it is necessary to understand where the sector stands today and where it needs to go by gathering data, measuring and reporting. As a first effort to support the Luxembourg financial system's transition and decarbonisation journey, the LSFI launched and coordinated in 2021 a Climate Scenario Analysis with the Paris Agreement Capital Transition Assessment (PACTA). Initiating this working group was vital to build on the PACTA 2021 exercise. In particular, the working group was able to analyse further and suggest tools and methodologies for Luxembourg financial players regarding climate measurement and reporting" – Nicoletta Centofanti, LSFI General Manager.

Analysis of Methodologies/Tools

Measuring emissions, selecting transition pathways, setting targets, taking actions, disclosing and monitoring progress are the six steps defined by the working group to reach net zero. Defining these steps sets up a clear process for those willing to engage on this journey and it is key to understanding how the existing climate measurement and reporting tools can support.

Considering the net-zero steps, the working group assessed five tools and methodologies, examining their use, functionalities, and alignment with the current regulatory requirements. The tools analysed were¹: Assessing Low Carbon Transition (ACT), Paris Agreement Capital Transition Assessment (PACTA), Partnership for Carbon Accounting Financials (PCAF), Science-Based Target Initiative (SBTi) and Transition Pathway Initiative (TPI).

¹ To select the tools to be analysed, the working group focused on those that are open source, transparent and not-for-profit. For each, they examined the main purpose, the data used and provided, the coverage, the methodology used, their level of user-friendliness, and the costs of implementation, among others.

"Following the analysis of these tools and methodologies, we concluded that a unique tool alone cannot help the financial sector reach net zero, yet they all have valuable features and play an essential role in the transition, covering different aspects of the net zero journey." – Rudi Belli, Head of Sustainability at Spuerkeess and Chair of the LSFI Climate Measurement and Reporting working group.

However, considering the analysis, the criteria that guided the tool/methodologies selection and the current needs and requirements of the financial sector, the LSFI working group on Climate Reporting and Measurement identified a set of actions to be conducted by the LSFI to support the financial sector in its decarbonisation journey.

Recommendations

In the short term, the LSFI, as a coordinating entity, is recommended by the working group to support the Luxembourg financial sector in using PCAF as a first priority and SBTi as a second priority.

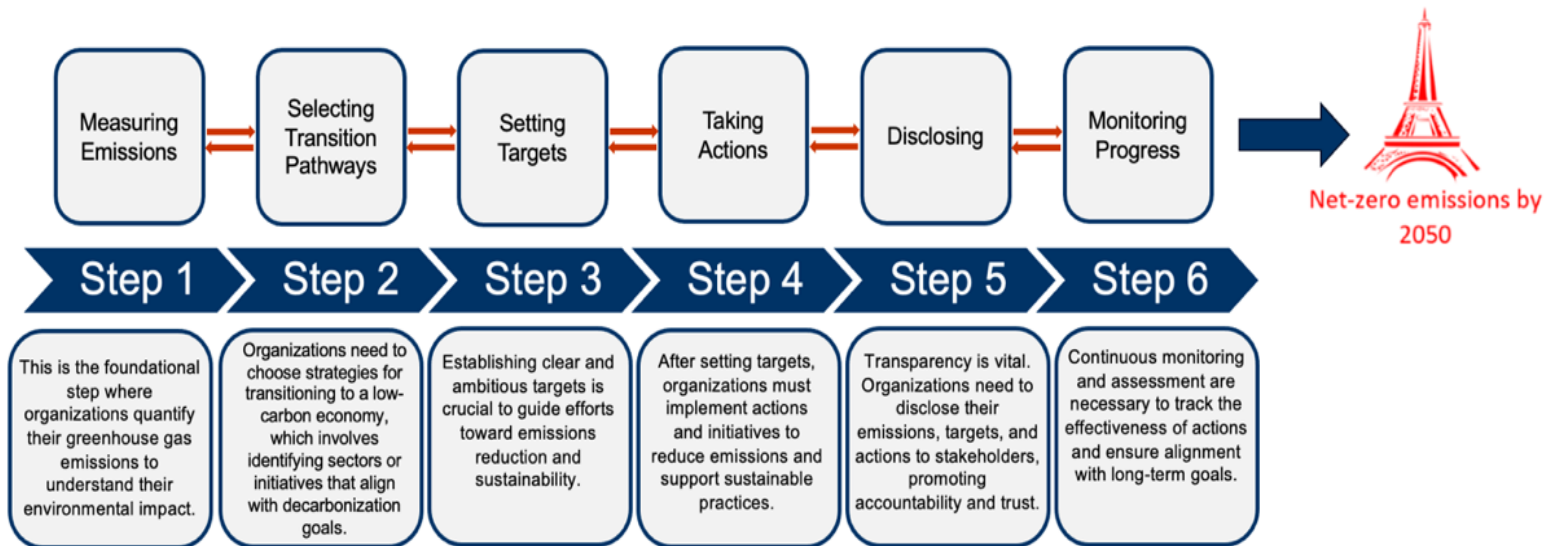
"The working group recommends PCAF and SBTi following the current needs of the sector, the sequence of different steps needed to reach net zero and the tools' maturity as well as global acceptance for application at financial institutions." – Michael Halling, Sustainable Finance Chair at the University of Luxembourg and Co-chair of the LSFI Climate Measurement and Reporting working group.

In particular, PCAF is the only tool that supports institutions on the first necessary step, measuring emissions, while also helping institutions to take actions and disclose. Meanwhile, SBTi represents an indispensable methodology to select transition pathways, set targets and equip to take action. In addition, both methodologies are highly recognised and widely used tools within the global financial sector.

In the medium term, the working group also recommends closely monitor the developments of the five tools analysed and the overall market for GHG-emission-based mitigation tools.

Going forward, the LSFI will work on implementing the suggestions of the Climate Reporting and Measurement working group members. As a first step, it will assess the best way forward to support the Luxembourg financial sector in using PCAF (first priority) and SBTi (second priority). In order to do so, it will gather feedback from existing users, continue the discussion with the tools' providers and establish a regular conversation with the financial industry. The LSFI will also host public sessions to disseminate the analysis and suggestions of the working group.

Net-zero Steps



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About the LSFI

The Luxembourg Sustainable Finance Initiative (LSFI), a non-profit organisation, is Luxembourg coordinating entity in Sustainable Finance and a central point of contact and information for all sustainable finance actors in Luxembourg.

Its mission is to raise awareness and help the financial sector further transition towards increased sustainability. The LSFI has also been mandated to elaborate and implement the Luxembourg Sustainable Finance Strategy. In order to reach these objectives, the LSFI works in close collaboration with existing Luxembourg-based sustainable finance stakeholders, such as financial industry associations, education, fintech, research, inclusive finance and civil society representatives.

The LSFI was founded in 2020 by the Luxembourg Ministry of Finance, Luxembourg Ministry of Environment, Climate and Sustainable Development, Luxembourg for Finance and the High Council on Sustainable Development. These founding members are represented at the LSFI's Board of Directors.

Supporting Information

LSFI Climate Measurement & Reporting Working Group Members

- Rudi BELLI, BCEE/Spuerkeess (Chair)
- Michael HALLING, University of Luxembourg (Co-chair)
- Mathilde BAUWIN, ADA
- Petra BESSON-FENCIKOVA, Société Générale
- Nathalie DOGNIEZ, Independent Director
- Anna ILLARIONOVA, EY
- Martin MAGER, Linklaters
- Dayo OJALEYE, INNPACT
- Ioana POPESCU, LIST
- Nathalie ROTH, 4CLIMATE
- Sarah TAGLIAROL, Edmond de Rothschild