

Methods note · Everyday practice

A cleaner portfolio is not yet a financing effect

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Fictional author and institute · Editorial demonstration, not peer reviewed

ABSTRACT

Lower attributed portfolio emissions do not by themselves demonstrate lower emissions caused by investor action. This methods note separates accounting exposure, investee operations, new financing, and investor contribution using PCAF's financed-emissions standard, GHG Protocol guidance, and Pástor and colleagues' original equilibrium model. A fully fictional corporate-bond example shows how a valuation denominator can change reported attribution while stipulated physical emissions remain constant. The analysis also distinguishes secondary trading, additional finance, engagement activity, and causal evidence, and keeps avoided emissions separate from inventories. It offers no fund recommendation, investment-performance claim, or real-world saving. Its practical contribution is a due-diligence sequence connecting a reported improvement to its accounting drivers, proposed mechanism, counterfactual, and evidential limits.

Keywords: financed emissions · portfolio accounting · investor contribution · additionality

A source-based editorial text, not a report of original Still North research. Examples and imagery are illustrative.

Two meanings of a climate improvement

An investment portfolio can report fewer attributed emissions without causing fewer emissions in the economy. Selling a holding, changing sector weights, or updating financial valuations can alter the portfolio account while the underlying companies continue operating. Conversely, financing a credible industrial transition may initially associate an investor with a high-emitting business. Neither observation makes portfolio accounting useless; it makes the meaning of the account important.

This methods note distinguishes emissions attribution, financial exposure, and investor contribution. It uses PCAF's 2022 financed-emissions standard, GHG Protocol investment guidance, and an original equilibrium model of sustainable investing by Pástor, Stambaugh, and Taylor. The aim is claim interpretation, not fund selection or a review of investment performance. All financial and emissions quantities in the worked example are fictional, with no claimed real-world savings.

The first question for any disclosure is therefore which proposition it supports. It may describe the emissions associated with holdings under a stated method, a change in investee operations, the allocation of new finance, or an effect caused by investor action. These are related evidence objects, but a number calculated for one cannot silently become proof of another.

Understand what is being attributed

The PCAF Part A standard assigns portions of borrower or investee emissions using asset-specific financial attribution rules. For listed equity and corporate bonds, the standard uses an outstanding amount and enterprise value including cash, known as EVIC, under its definitions. A mortgage or project-finance exposure uses a

different denominator. Mixing the rules creates a number without a stable interpretation.

The GHG Protocol's Category 15 guidance places investments within scope 3 and discusses proportional accounting and the distinction between organisational boundaries and investment holdings. Its treatment is not identical in every detail to later asset-specific standards. A disclosure should identify the standard, edition, asset coverage, and emissions scopes rather than merely saying that it follows carbon accounting.

Scope coverage matters. An investee's direct emissions, purchased-energy emissions, and value-chain emissions describe different parts of its activity. Missing value-chain information may be especially material for some sectors. Reported data, activity-based estimates, and sector proxies also have different evidential quality. A lower number can reflect different coverage or methods rather than a cleaner set of activities.

A fictional valuation example

Consider a fictional corporate bond with an outstanding book amount of £1 million. Assume the issuer has EVIC of £100 million and annual emissions of 10,000 tonnes on the selected, unchanged scope boundary. Using the simplified attribution relationship, the position is allocated one hundredth of those emissions, or 100 tonnes. These are invented teaching quantities, not a real issuer's account.

Now suppose the issuer's equity market valuation rises so that EVIC becomes £125 million, while the bond's book amount, operations, and emissions stay unchanged. The same simplified calculation attributes 80 tonnes to the bond. The reported amount has fallen because the denominator changed. There has been no emissions reduction in the stipulated company, and the example does not

demonstrate an environmental benefit from holding the bond.

This is not an argument that EVIC should be discarded or adjusted casually. PCAF discusses market-value effects and the comparability problems created by inconsistent corrections. The practical response is to report the required account transparently and explain the drivers of change. Keep valuation, holdings, coverage, methodology, and investee emissions effects distinguishable where the data allow.

A useful reconciliation asks what changed in the portfolio, what changed in the investees, and what changed in measurement. New estimates may reveal previously uncounted emissions. That can make reported performance look worse while improving information quality. A manager should not be rewarded for incomplete coverage or penalised for a disclosed methodological improvement without examining the underlying changes.

Distinguish secondary trading from new financing

Buying an existing share from another investor is not the same transaction as subscribing to newly issued shares that fund a company. Both can be financially relevant, and secondary markets can affect prices and financing conditions. But the cash goes to different recipients. A claim that a purchase directly paid for a new facility needs evidence about the transaction, not merely a photograph of the facility in a portfolio report.

New financing also requires a counterfactual before impact can be attributed. Would the project proceed with other capital, at the same scale and time, under the same conditions? Does the financing remove a genuine constraint, change a decision, or support an activity already funded? The entire output of a project cannot automatically be credited to every investor, lender, intermediary, and customer involved.

Pástor, Stambaugh, and Taylor's *Sustainable Investing in Equilibrium* models channels through which investor preferences can affect asset prices, firm behaviour, and real investment. It supplies a theoretical account under model assumptions. It is not a guarantee that any particular green-labelled purchase produces additional mitigation. A plausible mechanism still needs transaction-specific and outcome-specific evidence.

Engagement is an action, not its own outcome

Shareholder voting, dialogue, lending conditions, and collaborative engagement may seek to change business decisions. Record the requested change, authority available, timetable, and escalation route. A meeting count or signed investor letter establishes activity. It does not establish that the company changed because of the engagement or that the eventual operational change met its stated climate objective.

A stronger contribution account follows the sequence: investor request, relevant company decision, implementation, and subsequent evidence. It also examines alternative explanations, such as regulation, technology prices, customer demand, or other investors. Acknowledging shared influence is more credible than assigning the full

corporate change to whichever institution publishes the most polished case study.

The GHG Protocol Policy and Action Standard provides a baseline-versus-intervention framework that is useful for thinking about such causal claims. It does not eliminate the difficulty of identifying investor influence. Where a credible counterfactual is unavailable, report a documented contribution pathway and its limits rather than manufacturing a precise avoided-emissions total.

Keep the claims in separate accounts

PCAF specifies separate reporting for avoided emissions and removals rather than subtracting them from scope inventories. That separation prevents a project comparison from disguising the absolute emissions associated with a portfolio. A financed renewable project can have lifecycle emissions while also being assessed against an alternative electricity scenario. The two statements need not cancel into a single reassuring net number.

At a minimum, distinguish the portfolio inventory, investee transition information, financing activity, and claimed investor contribution. A fund's lower exposure to high-emitting sectors may be exactly what an investor wants for a stated risk or values objective. It should still be described as that choice, rather than as verified decarbonisation of the economy.

A household reading a fund statement should not subtract financed emissions from a personal consumption footprint or treat a portfolio comparison as an offset. Different inventories have different boundaries and overlapping activities. This note does not assess individual financial suitability, fees, diversification, tax, liquidity, or risk. Those require appropriate regulated information and advice where relevant.

Limits and a more useful due-diligence question

Financed-emissions estimates remain constrained by company reporting, value-chain coverage, attribution conventions, and changing asset values. Causal influence is harder still to isolate, particularly when several actors act together and operational change takes years. A theoretical channel, a transparent inventory, and a documented engagement record are valuable, but they offer different kinds of support and should retain their separate labels.

Ask a manager to explain one reported improvement from accounting input to real-world claim. Which holdings or denominators changed? Which companies changed their activities? What new finance or governance action was supplied, and what would otherwise have happened? A clear answer may be narrower than the marketing headline. It is also more useful for deciding whether a strategy's actual mechanisms match the investor's purpose.

References

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