Scope 3 TWG
Group C
Meeting Minutes

Meeting 1

Date: November 7, 2024

Time: 09:00 – 11:00 ET

Location: Virtual

Attendees

Technical Working Group Members

1. Choi, Karis - HSBC
2. Innes-Wimsatt, Elijah - Conservation International
3. McIlhone, Shannon - Partnership for Carbon Accounting Financials (PCAF)
4. Montoto, Nadia - KPMG
5. Patel, Hetal - Phoenix Group
6. Powell, Colin - PwC
7. Salo, James - S&P Global Sustainable1
8. Schneider, Fabiola Isabel - University College Dublin
9. Shih, Howard - Science Based Targets initiative
10. Somerville, Sean - University of Stirling
11. Tarrats, Enric - Banc Sabadell

Guests

N/A

GHG Protocol Secretariat

1. Alexander Frantzen
2. Natalia Chebaeva
3. David Rich
4. Claire Hegemann

Documents referenced

1. Discussion Paper C.1 - Investments - Version 1.0
2. Scope 3 - Group C - Meeting C.1 - Presentation – 20241107 ("Presentation")

Summary

Item	Topic and Summary	Outcomes
1	**Housekeeping** Secretariat presented administrative meeting information, housekeeping rules, notes to reader, and meeting agenda.	• Secretariat to send decision-making criteria to TWG Group C when available online
2	**Governing bodies and decision-making** Secretariat presented remits of governing bodies and Technical Working Groups (TWG); decision-making criteria, and precise standard setting language.	• n/a
3	**Scope of work** Secretariat presented the scope of work (SoW) for the Group C of the Scope 3 TWG through June 2025.	• n/a
4	**Discussion paper and background** Secretariat presented notes on terminology, *Discussion Paper C.1 (v1.0)*, and background on the market of users and a comparison of the GHG Protocol *Scope 3 Standard* and the Partnership for Carbon Accounting Financials (PCAF) standards.	• Secretariat to send Discussion Paper C.1 (version 1.0) to TWG Group C following the meeting by November 14th
5	**Issue 1: Applicability for non-FIs** Secretariat presented the issue: Applicability of scope 3 category 15 emissions for non-financial institutions (i.e., any and all companies or organizations that do not operate financial services and are not financial institutions), including a discussion of, specifically: Materiality, minimum boundaries, absolute versus percentage cutoffs, and industry classification systems.	• Secretariat to send feedback form to TWG Group C by November 14th
6	**Issue 2: Harmonization with PCAF** Secretariat presented the issue: Harmonization of the requirements and guidance between the GHG Protocol *Scope 3 Standard* and with PCAF's recently updated and published standards, including a discussion of, specifically, consolidation approaches and data quality scoring (introduction of).	• n/a
7	**Time planning and next steps** Secretariat presented meeting time survey results, meeting dates and times, and next steps.	• Secretariat to re-send form to non-respondents to vote on the alternative meeting time to TWG Group C following this meeting • Secretariat to send form to vote on the alternative date to host meeting C.2 to TWG Group C following this meeting • Secretariat to send Meeting Minutes to TWG Group C by November 14th

Discussion and outcomes

1. Housekeeping

- Refer to Presentation slides 2-6
- The Secretariat presented administrative meeting information, housekeeping rules, notes to reader, and meeting agenda.

2. Governing bodies and decision-making

- Refer to Presentation slides 7-10
- The Secretariat presented remits of governing bodies and Technical Working Groups (TWG); decision-making criteria, and precise standard setting language.

3. Scope of work

- Refer to Presentation slides 11-15
- The Secretariat presented the scope of work (SoW) for the Group C of the Scope 3 TWG through June 2025.

4. Discussion paper and background

- Refer to Presentation slides 16-23 and *Discussion Paper C.1*
- The Secretariat presented notes on terminology, *Discussion Paper C.1 (v1.0)*. This version includes the first two issues to be considered:
    - Issue 1: Applicability of scope 3 category 15 for non-financial institutions
    - Issue 2: Harmonization with Partnership for Carbon Accounting Financials (PCAF)

Discussion

- One TWG member specified that while PCAF Part B and Part C have not been reviewed nor granted the Built on GHG Protocol mark, however, GHG Protocol provided feedback during development
- One TWG member said that PCAF Part B was designed exclusively for capital market transactions, whereas the *Scope 3 Standard* includes this activity in managed investments and client services in category 15, and asserted that this discrepancy needs to be clarified or resolved
- The Secretariat confirmed that the classification and nomenclature of the GHG Protocol and PCAF standards, which don't always match, will be resolved by this Group C in a future meeting(s)

Outcomes

- n/a

5. Issue 1: Applicability of scope 3 category 15 for non-financial institutions

- Refer to Presentation slides 24-29
- The Secretariat presented the issue of the applicability of scope 3 category 15 emissions for non-financial institutions (i.e., all companies or organizations that do not operate financial services and are not financial institutions), current standard approach and requirements, and options for consideration:
    - Option 1: Make clear that both FIs and non-FIs shall disclose category 15 emissions (as is currently required)
    - Option 2: In addition to Option 1, require that FIs and only large-cap non-FIs shall disclose while small-cap/small- to medium-sized enterprise (SME) non-FIs only should or may disclose

Discussion

- The Secretariat clarified that there are examples where the question of applicability and inclusion in scope 3 category 15 is straightforward for non-FIs, for example, for a reporting company relying on the operational control consolidation approach that holds a 51% stake in another business; this example would apply to subsidiaries, associate companies, and joint ventures of a reporting company
- Cash and cash equivalent (CC&E) and pension/retirement funds:
    - One TWG member questioned whether the CC&E or pension/retirement fund payments of/from non-FIs (both optional in the *Scope 3 Standard*) would or could influence which non-FIs would need to disclose
    - The Secretariat clarified that issues are often interconnected and that while some future issues for consideration may change how category 15 is recorded by non-FIs (e.g., the mandatory inclusion of CC&E), this should not affect this question regarding applicability
    - One TWG member questioned whether pension funds are required or optional for inclusion
    - The Secretariat clarified that these activities are currently optional for inclusion in category 15
- Materiality and absolute vs. percentage cutoffs:
    - One TWG member recommending using "shall" language and basing inclusion on materiality (rather than business size) to provide a simple, blanket requirement
    - One TWG member supported this recommendation but encouraged considering absolute cutoffs, warning that percentage (%) thresholds could result in large-caps excluding emissions that could be very large on an absolute scale (e.g., compared to SMEs)
- One TWG member encouraged the GHG Protocol to require that non-FIs disclose category 15 emissions for all asset classes to support harmonization with PCAF
- One member warned that mandating category 15 may overburden small-cap FIs and asserted that materiality could relieve some small-cap FIs of this burden for immaterial emissions
- Industry classifications and industry-specific requirements:
    - The Secretariat inquired about using industry classification(s) to determine applicability
    - One TWG member warned against using industry classifications to determine applicability because some non-FIs may still have significant business activity involved in investments
    - One TWG member asserted that stipulating different requirements for FIs and non-FIs complicates things; and while an industry classification may be a starting point, it is not a flawless or unambiguous way of classifying organizations
        - The Secretariat asked whether industry classification(s) may belong in normative guidance and not be for standard requirements language
        - The member agreed
    - One TWG member asked for clarity of whether or how the *Scope 3 Standard* must wait for or rely on expected requirements from the GHG Protocol *Land Sector and Removals Standard*
    - The Secretariat advised that this topic will be parked until discussion about removals take place in a future meeting(s) by the Scope 3 TWG Group C

Outcomes

The Secretariat will send a feedback form to collect further inputs from TWG members on this topic

6. Issue 2: Harmonization with PCAF

- Refer to Presentation slides 30-43
- The Secretariat presented the issue of harmonization of the requirements and guidance between the GHG Protocol *Scope 3 Standard* and PCAF standards (Part A, Part B, and Part C) concerning non-investment-specific (general) topics:
    - Accounting and reporting principles (Presentation slide 33)
    - Greenhouse gases and GWPs (Presentation slide 34)
    - Avoided emissions (Presentation slide 35)
    - Removals (Presentation slide 36)
    - Consolidation approaches (Presentation slides 37-39)
        - Options for consideration:
            - Option 1: GHG Protocol makes no change to consolidation approach rules
            - Option 2: GHG Protocol does not permit FIs to use the equity share approach
            - Option 3: GHG Protocol does not permit FIs or non-FIs that account for category 15 emissions to use the equity share consolidation approach
    - Data quality scoring (Presentation slides 40-43)
        - Options for considerations:
            - Option 1: GHG Protocol to adopt PCAF's data quality scoring methodology (with some updates)
            - Option 2: GHG Protocol to adopt PCAF's scoring methodology for category 15 (for FIs and non-FIs)
            - Option 3: GHG Protocol to develop its own data quality scoring method (developed by Group A)
- The first four topics were currently non-issues, while the last two (consolidation approaches and data quality scoring) necessitated discussion by TWG members.

<u>Discussion</u>

Consolidation approaches:

- One TWG member recommended removing the equity share consolidation approach for FIs and leaving it there for non-FIs and, in the context of interoperability and harmonization, recommended considering that the equity share consolidation approach matches financial accounting under GAAP and that the Science-based Targets initiative (SBTi) is seeking to match carbon accounting with financial accounting
- The Secretariat asked for more material on this topic to provide a common factual basis for discussion
- The TWG member will follow up on this request for more information
- One TWG member asserted that harmonization with regulated disclosure mandates is a more important implication of consolidation approaches, rather than comparability, including to stop companies from using approach optionality as a loophole to *not* report category 15 emissions
- One TWG member asked how GHG Protocol will harmonize with future developments by PCAF
- The Secretariat explained that the Scope 3 TWG Group C will consider technical harmonization between currently published versions of the PCAF standards and the *Scope 3 Standard* (2011); and explained that process or partnership considerations will be handled by the GHG Protocol governing bodies, including a possible approval process similar to the former 'Built on GHG Protocol' mark whereby third-party standards or guidance received recognition of conformance with GHG Protocol
- The Secretariat inquired whether TWG members had insight into why the SBTi and/or other programs want companies to use the equity share consolidation approach, including because most companies consolidate and report their corporate GHG inventories using the operational control approach
- One TWG member stated that non-FI companies are looking to match carbon accounting with financial accounting to streamline the process of performing GHG accounting
- The Secretariat questioned whether this would be a means to easily apply the spend-based method for all scope 3 categories rather than relying more complex and/or reliable methods; or whether there are other benefits of matching GHG accounting with financial accounting
- One TWG member clarified that if a reporting company owns a company, then International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) rules state that a reporting

company with controlling interest (or >50% economic interest) in a subsidiary must report consolidated accounts, i.e., including the financials of said subsidiary (which more than double counts the net assets, i.e., book value, of a subsidiary company)

- The same TWG member juxtaposed this with an example of a reporting company that owns merely twenty-five percent (25%) of an entity's shares; in this case, the entity is treated like a financial instrument, whereby the reporting company accounts for the value of the entity in proportion to the reporting company's economic interest, which maps easily to category 15 guidance
- Finally, said TWG member asserted that mapping the entire *Scope 3 Standard* to proper corporate financial statements would be difficult and recommended requiring reporting companies to rely on the operational control consolidation approach while reporting the emissions of investments in scope 3 category 15 in proportion to an investor's economic interest (ownership), i.e., to not permit the equity share consolidation approach (whereby the emissions from investments would be reported in the scope 1 or scope 2 emissions inventories of the reporting company) as this reflect the residual (outstanding) value of the investor's investment (including in subsidiaries, associate companies, JVs)
- One TWG member provided that, in the financial sector, approximately two-thirds (2/3) of companies use the operational control consolidation approach and this has increased over the past few years; while 18-20% rely on the financial control approach.
- The same TWG member asserted that a deciding factor for consideration is that compliance with the standard should facilitate comparability of scope 3 inventories by and between market participants
- One TWG member clarified that SBTi permits all three consolidation approaches to align with the GHG Protocol and that, separately, most FIs providing SBTi financial target setting rely on the operational or financial control consolidation approaches
- The same TWG member stated that, separately, because scope 1 or scope 2 emissions signal more control (and accountability) by a reporting company (versus indirect scope 3 emissions which may be less influenceable), therefore, the equity share approach should be maintained if it increases companies' disclosure of scope 1 and scope 2 emissions
- One TWG member pointed out that the Corporate Sustainability Reporting Directive (CSRD) only permits the operational control consolidation approach to make comparability easier to achieve; and that this legislative mandate, in addition to the fact that most companies already use the operational control consolidation approach, means that most companies are and will continue adopt the operational control approach, including companies outside of (not domiciled in) Europe

Data quality scoring:

- One TWG member raised the possibility of adopting a "split approach" whereby FIs use PCAF's data scoring method and non-FIs use a new GHG Protocol method, if any
- One TWG member seconded this "split approach" and asserted that financial institutions are already using PCAF's data quality scoring method and find it useful, including to set internal key performance indicators (KPIs) to improve their data quality score
- The Secretariat inquired whether it is the GHG Protocol's responsibility to design a data quality score or whether it should be left to FIs to develop scoring method(s) and decide which to use
- Some TWG members asserted that providing a data quality score would be useful both internally for companies to benchmark and improve data quality and externally to track/compare data quality
- The Secretariat inquired whether requiring a score while not specifying one prescriptively was useful
- The TWG member asserted that some industries lack data quality scoring methods and may need the GHG Protocol to develop a method(s)
- One TWG member recommended that the GHG Protocol review the scoring method with PCAF to propose updates to the PCAF scoring approach, while noting that aligning data quality scores could be a rigorous, time-consuming undertaking
- One TWG member agreed that providing a harmonized data quality scoring method could be valuable and recommended using PCAF's data quality score as a base given that it's road tested
- One TWG member raised the hazard of using "blunt" data quality scoring without significant caveats given that there exists a high mix of disclosure quality; further, a mix of modeled approaches exist which, despite being designed well, may be applied poorly in practice and yield results that do not provide a reliable sign of data quality
- The same TWG member summarized findings from a recent study which found that only approximately 30% of companies report their scope 1 emissions comprehensively (i.e., with no need

for disaggregation or adjustments to reflect a company's actual emissions), meaning that significant adjustments would necessary to make the emissions data and data quality scores comparable or meaningful
- Finally, said TWG member encouraged prioritizing completeness and rigor rather than a particular source(s)
- The Secretariat inquired whether the adoption of a unique, category 15-specific data quality scoring method in parallel with an overall scope 3 data quality scoring method could or would conflict or be challenging in practice (e.g., providing multiple data quality indicators); and asked if data quality scores across categories need to or should be harmonized across scope 3 categories
- One TWG member responded that, for example, without PCAF's data quality scoring method, scores differ for asset types (e.g., retail mortgages versus business loans), so that scores across different asset types cannot be compared with one another
- The Secretariat asked whether scoring needs to be uniform on a total scope 3 inventory level or on a category-by-category level (similar to disaggregating vs. aggregating category emissions)
- The TWG member said that this is an option and explained that financial institutions using the data quality scores know that many factors contribute to variability between banks and industries
- Further, said TWG member asserted that it is better to have a data quality score versus not, and recommended coordinating different scores as much as practicable between categories
- The Secretariat stated the Group A of the Scope 3 TWG will consider this feedback in further detail

Outcomes

- The next meeting (C.2) will concern finalizing recommendations
- The Secretariat will send out a feedback form on issues raised on this call (C.1)
- The Secretariat will share *Discussion Paper C.1* (v1.0) with TWG members following this meeting

7. Time planning and next steps

- Refer to Presentation slides 44-50
- The Secretariat presented meeting time survey results, meeting dates, times, and next steps.

Discussion

- One TWG member inquired whether the Secretariat received responses from TWG members not based in the U.S. or Europe, for example, time zones in Asia
- The Secretariat confirmed that one or more members from Asia had not yet responded to the survey
- Some members indicated that they could not attend meeting C.2 if rescheduled to November 27th

Outcomes

- The Secretariat will send out the alternative meeting times survey/poll
- The Secretariat will send out the alternative meeting C.2 survey/poll

Summary of written submissions received prior to meeting

- Consider reporting only significant investments as defined by the group.
- There should be some level of determination of whether an investment is in or out.
    - The idea of a percent ownership is not always reflective of the emissions generated by the investment (a 5% share of an oil and gas company could have more emissions than a 50% share in a small office building co-op).
- It can be hard for investors to gather information on investee emissions if said organizations do not publicly disclose, including to determine if the investor's percentage share of emissions is significant.