



# Greenhouse Gas Protocol

## Discussion Paper 3.1 Corporate Standard

### Scope 3 requirement, questions #1-3 (Chapter 4, "Setting Operational Boundaries")

***WORKING DRAFT, DO NOT CITE***

This discussion paper considers whether scope 3 reporting should be required in the *Corporate Standard*, and if so, how that reporting requirement should be defined. This discussion paper is provided to Technical Working Group (TWG) members to contribute to the update process of the *Corporate Standard* with potential application or relevance for the *Scope 3 Standard* and *Scope 2 Guidance*.

This partial discussion paper consolidates relevant information for the first three of six questions regarding a scope 3 reporting requirement:

1. Should there be a scope 3 reporting requirement in the Corporate Standard?
2. What should the scope 3 reporting requirement be?
3. Can the scope 3 reporting requirement be applied globally across all companies?

If it is determined that a global scope 3 requirement cannot be applied across all companies, then the following additional questions will be considered in a future discussion paper:

4. What mechanism should be used to define different scope 3 requirements?
5. What reporter type(s) should different levels of scope 3 reporting be defined for?
6. How should the different scope 3 reporting requirement(s) be defined?

**DISCLAIMER:**

*This document is a working document to be used as an input for a discussion within the Technical Working Group of the Corporate Standard revision process. The paper does not reflect the position of the Greenhouse Gas Protocol, nor WRI and WBCSD, nor members of the Technical Working Group. The statements are not designed to be final or complete. This working draft should not be referenced or cited.*

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## Introduction

Published in 2004, the *Corporate Standard* considers reporting all scope 3 emissions to be optional. However, the *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (i.e., Scope 3 Standard, 2011) requires all scope 3 emissions to be reported. As part of the GHG Protocol Standards revision process, GHG Protocol is considering adopting a scope 3 requirement in the *Corporate Standard*.

Through a Technical Working Group, the Corporate Standard workstream will first consider the question of a scope 3 reporting requirement. If there is support for a scope 3 requirement, then the following discussion will consider how to define that requirement.

At the same time, the *Scope 3 Standard* is undergoing revision through a separate Technical Working Group process. The Scope 3 workstream will consider, among other topics, what is needed for an accurate, complete, and transparent scope 3 inventory, including any revision to boundary setting requirements and guidance such as related to justifiable exclusions or addition of a significance threshold. The Corporate Standard workstream will consider questions on scope 3 accounting and reporting requirements in the *Corporate Standard* related to compliance, such as whether to define a scope 3 reporting requirement and whether there should be different reporting requirements for specific sectors or company sizes or a uniform requirement for all reporting entities.

The draft options under consideration for the Corporate Standard workstream (presented below) are organized under six overarching questions. The options presented are not fully comprehensive, but they contain the most viable options based on stakeholder survey feedback and research by the GHG Protocol Secretariat.

## Scope of Work

The *Corporate Standard's Standard Development Plan* defines a list of topics to be considered during the standards revision process. This scope of work is subject to change during the revision process. The relevant item in the scope of work for this discussion paper is:

- C.1. Revisit current operational boundary requirements in chapter 4 of the *Corporate Standard* to consider requiring scope 3 emissions reporting, such as through a comprehensive requirement across reporting organizations and scope 3 categories, or with a differentiated or phased approach based on criteria such as an organization's size or sector, the significance of a company's scope 3 emissions, or by scope 3 categories.

## Current GHG Protocol Requirements and Guidance

Two of the GHG Protocol standards consider scope 3 reporting:

- *Corporate Standard*, Second Edition, released 2004
- *Corporate Value Chain (Scope 3) Standard*, released 2011

The two standards diverge on scope 3 reporting requirements. In the *Corporate Standard*, scope 3 reporting is optional. However in the *Scope 3 Standard*, scope 3 reporting is required. Companies may choose whether to report in conformance with the GHG Protocol *Corporate Standard* (i.e., scope 3 is optional), or to report in conformance with the GHG Protocol *Scope 3 Standard* (i.e., scope 3 is required; **Table 1**).

**Table 1.** Current GHG Protocol requirements and guidance

Name	Type	Scope 3 requirement
<a href="#">GHG Protocol Corporate Standard</a> , 2004	GHG Standard	<p><b>Scope 3 reporting is optional:</b></p> <p><i>"Scope 3 is an optional reporting category that allows for the treatment of all other indirect emissions."</i></p> <p>-page 25, <i>Corporate Standard</i></p>
<a href="#">GHG Protocol Scope 3 Standard</a> , 2011	GHG Standard	<p><b>Scope 3 reporting is required:</b></p> <p><i>"Companies shall account for all scope 3 emissions and disclose and justify any exclusions."</i></p> <p><i>Companies shall account for emissions from each scope 3 category according to the minimum boundaries provided in table 5.4.</i></p> <p><i>Companies may include emissions from optional activities within each category.</i></p> <p><i>Companies may exclude scope 3 activities from the inventory, provided that any exclusion is disclosed and justified."</i></p> <p>-page 59, <i>Scope 3 Standard</i></p> <p><b>Guidance on emissions inclusion:</b></p> <p><i>"Companies should follow the principles of relevance, completeness, accuracy, consistency, and transparency when deciding whether to exclude any activities from the scope 3 inventory."</i></p> <p><i>Companies should not exclude any activity that would compromise the relevance of the reported inventory. (See table 6.1)</i></p> <p><i>Companies should ensure that the scope 3 inventory appropriately reflects the GHG emissions of the company, and serves the decision-making needs of users, both internal and external to the company.</i></p> <p><i>In particular, companies should not exclude any activity that is expected to contribute significantly to the company's total scope 3 emissions." (See section 7.1)"</i></p> <p>-pages 59-60, <i>Scope 3 Standard</i></p>

## Requirements and Guidance from Other Frameworks and Programs

Mandatory disclosure programs, voluntary reporting programs, target-setting programs, and other standards for greenhouse gas emissions have guidance and requirements for scope 3 emissions (**Table 2**). Scope 3 reporting guidance for the following external programs is detailed in the table below: IFRS S2, ESRS E1, US SEC Climate Disclosure Rule, California Corporate Climate Data Accountability Act, ISO 14064-1:2018, SBTi, CDP, and GRI.

Although these external programs have taken different approaches for their applications, a general trend has indicated the requirement of scope 3 reporting for a complete accounting of emissions.

**Table 2.** Scope 3 requirements from other standards and programs

Name	Type	Scope 3 requirement
<p><a href="#">IFRS S2</a> Climate-related Disclosures</p>	<p>Climate disclosure mandate</p>	<p><b>Required, subject to jurisdictional adoption:</b> Scope 3 GHG emissions are required. Reporters shall consider the 15 GHG Protocol categories and disclose the material categories. "Material information" is defined in IFRS S1, which applies to all of IFRS S2. Category 15 is required if the entity is an asset manager, commercial bank, or insurer.</p> <p><i>"The entity shall consider its entire value chain (upstream and downstream) and shall consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011). In accordance with paragraph 29(a)(vi), the entity shall disclose which of these categories are included in its Scope 3 greenhouse gas emissions disclosures."</i> -Paragraph B32, <a href="#">IFRS S2</a></p> <p><i>"In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity."</i> -Paragraph 18, <a href="#">IFRS S1</a></p>

<p><b>ESRS E1</b> Climate Change</p>	<p>Climate disclosure mandate</p>	<p><b>Required if climate disclosure deemed material:</b>                  Significant scope 3 emissions required with relief for first reporting period; required to screen the 15 GHG Protocol categories and report if significant. <i>Note: Disclosure based on ESRS E1 is subject to double-materiality assessment. If a company assesses the climate change topic to not be material, they would not be required to report greenhouse gas emissions, but would need to justify why it is not material.</i></p> <p><i>"The undertaking shall screen its total Scope 3 GHG emissions based on the 15 Scope 3 categories identified by the GHG Protocol Corporate Standard and GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011) using appropriate estimates"</i>                  - <a href="#">ESRS E1</a> §AR 46 c)</p> <p><i>"The undertaking shall identify and disclose its <b>significant Scope 3 categories</b> based on the magnitude of their estimated GHG emissions and other criteria provided by GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011, p. 61 and 65- 68) or EN ISO 14064-1:2018 Annex H.3.2, such as financial spend, influence, related transition risks and opportunities or stakeholder views."</i> - <a href="#">ESRS E1</a> §AR 46 d</p>
<p><b>US SEC</b> Climate Disclosure Rule</p>	<p>Climate disclosure mandate</p>	<p><b>Optional:</b> Scope 3 emissions not required. Scope 1 and 2 required if deemed material to investors and if registrant meets certain size criteria (e.g., large accelerated filers).</p>
<p><b>California</b> Corporate Climate Data Accountability Act (<a href="#">CA SB 253</a> and <a href="#">CA SB 219</a>)</p>	<p>Climate disclosure mandate</p>	<p><b>Required in legislation:</b> Draft text is not finalized, but scope 3 is required in the legislation passed in September 2023 and amended in September 2024</p>

<p><a href="#">ISO 14064-1:2018</a></p>	<p>GHG Standard</p>	<p><b>Required if significant:</b> The organization shall quantify and report indirect emissions if significant. Exclusions of significant indirect emissions shall be justified. Note: ISO 14064-1:2018 currently uses 'indirect emissions' instead of scopes language.</p> <p><i>"The organization shall apply and document a process to determine which indirect emissions to include in its GHG inventory. As part of this process, the organization shall define and explain its own <b>pre-determined criteria for significance</b> of indirect emissions, considering the intended use of the GHG inventory. Whatever the intended use is, criteria should not be used to exclude substantial quantities of indirect emissions or evade compliance obligations. Using those criteria, the organization shall identify and evaluate its indirect GHG emissions, to select the significant ones. The organization shall quantify and report these significant emissions. Exclusions of significant indirect emissions shall be justified. The <b>criteria to evaluate significance</b> may include the magnitude/volume of the emissions, level of influence on sources/sinks, access to information and the level of accuracy of associated data (complexity of organization and monitoring). A risk assessment or other procedures (e.g. buyer requirements, regulatory requirements, concern of interested parties, scale of operation, etc.) may be used (see ISO 13065). More guidance is provided in Annex H. The criteria for evaluating the significance may be periodically revised. The organization should retain documented information about the revisions."</i></p> <p>- <a href="#">ISO 14064-1:2018</a>, Section 5.2.3 and Annex H</p>
<p><b>SBTi</b> (Science Based Targets Initiative) <a href="#">Corporate Net Zero Standard</a></p>	<p>Target-setting initiative</p>	<p><b>Required</b> in GHG inventory, with at least 95% of scope 3 emissions reported. For target-setting, most entities follow traditional pathway, which requires a scope 3 target. <a href="#">SME pathway</a> does not require scope 3 target.</p> <p><i>"Companies shall not exclude more than 5% of emissions from their total scope 3 GHG inventory."</i></p> <p>- <a href="#">SBTi Corporate Net Zero Standard</a>, C5</p>
<p><a href="#">CDP</a></p>	<p>Voluntary reporting program</p>	<p><b>Optional</b>, but reporters lose points on their CDP score if they exclude scope 3. The CDP score provides a snapshot of environmental disclosure and environmental performance. CDP also suggests that a quantitative threshold of 95% can be used to assess relevance for emissions.</p> <p><i>"A practical rule of thumb often applied to evaluate the relevance of an emissions' source or activity is to consider the sources that contribute to 95% of the emissions inventory once sources are listed by size of emissions."</i></p> <p>- <a href="#">CDP Climate Change Reporting Guidance 2023</a></p>
<p><a href="#">GRI Climate Change Exposure Draft</a></p>	<p>GHG Standard</p>	<p><b>Required</b> in Climate Change Exposure Draft (2023)</p>

The external programs that require scope 3 emissions reporting also further define which scope 3 emissions are recommended or required based on criteria like materiality, significance, and quantitative thresholds.

**Materiality:** IFRS S2 requires the disclosure of emissions that are considered to be “material,” using a definition of “material information” from IFRS S1 that information should not be omitted, misstated, or obscured if it could affect decisions made by primary users of that data. It should be noted that the concept of “material information” is only defined in IFRS S1, but that IFRS S1 applies to all of IFRS S2. IFRS S1 is titled “General Requirements for Disclosure of Sustainability-related Financial Information” and IFRS S2 is titled “Climate-related Disclosures.”

ESRS E1 also uses the concept of “materiality” but with a difference application. “Double materiality” is used as a basis for sustainability disclosures in ESRS 1, and it is defined as reflecting impact materiality and/or financial materiality ([ESRS 1](#)). ESRS provides guidance for the double materiality assessment. If a company determines that the climate change topic is material, then they are required report greenhouse gas emissions, including scope 3.

**Significant emissions:** Both ESRS E1 and ISO 14064-1:2018 require “significant” scope 3 emissions. However, the definition of “significant” in ESRS E1 and ISO 14064-1:2018 is closely aligned with the definition of “relevance” used by GHG Protocol. For example, ESRS E1 defines “significance” as being based on the magnitude of emissions, as well as other criteria defined by GHG Protocol (e.g., financial spend, influence, risks, opportunities, stakeholder views). ISO 14064-1:2018 leaves the definition of “significance” up to reporters, but suggests that the criteria may include magnitude, influence, risk, data quality, and concern of interested parties. Both of these definitions are very similar to the six relevance criteria defined in the GHG Protocol *Scope 3 Standard*: Size/magnitude, influence, risk, stakeholders, outsourcing, sector guidance.

**Quantitative thresholds:** SBTi and CDP both provide a quantitative exclusion threshold for reporting. SBTi requires complete scope 3 reporting and defines a complete scope 3 inventory as including at least 95% of scope 3 emissions. CDP suggests a quantitative rule of thumb of 95% when determining if emissions are considered relevant (CDP Climate Change Reporting Guidance 2023).



## Options Under Consideration

Because a scope 3 requirement could have multiple components that could be adopted in combination, the options proposed in this paper are organized below by several overarching questions (**Table 3, Table 4**). The questions are organized into two tiers:

- **Primary questions, #1-3:** These questions are the higher order questions that consider where there should be a scope 3 requirement. These questions are addressed in this paper.
- **Secondary questions, #4-6:** These questions would define the details of a differentiated scope 3 requirement, if needed. These questions will only be considered if it is determined that scope 3 reporting should be required but that a global scope 3 requirement cannot be applied across all companies. These questions will be considered in a future paper, if needed.

Questions #1-3 and the associated options are analyzed below in more detail.

**Table 3. Proposed primary questions** and options for considering a scope 3 requirement in the Corporate Standard

Primary questions	Options
1. Should there be a scope 3 reporting requirement in the <i>Corporate Standard</i> ?	1A. No. Maintain <i>Corporate Standard</i> optionality for scope 3 reporting 1B. Yes. Adopt a scope 3 reporting requirement in the <i>Corporate Standard</i>
2. What should the scope 3 reporting requirement be?	2A. Companies shall account for <b>all</b> scope 3 emissions as defined in the <i>Scope 3 Standard</i> and disclose and justify any exclusions 2B. Companies shall account for all <b>relevant</b> scope 3 emissions as defined in the <i>Scope 3 Standard</i> and disclose and justify any exclusions 2C. Companies shall account for all <b>significant</b> scope 3 emissions as defined in the <i>Scope 3 Standard</i> and disclose and justify any exclusions 2D. Other scope 3 reporting requirement
3. Can the scope 3 reporting requirement be applied globally across all companies?	3A. Yes. All companies have the same scope 3 reporting requirement 3B. No. Different scope 3 reporting requirements should be defined

**Relevant** = GHG principle of relevance, i.e. "Ensure the GHG inventory appropriately reflects the GHG emissions of the company and serves the decision-making needs of users – both internal and external to the company" – *Corporate Standard*

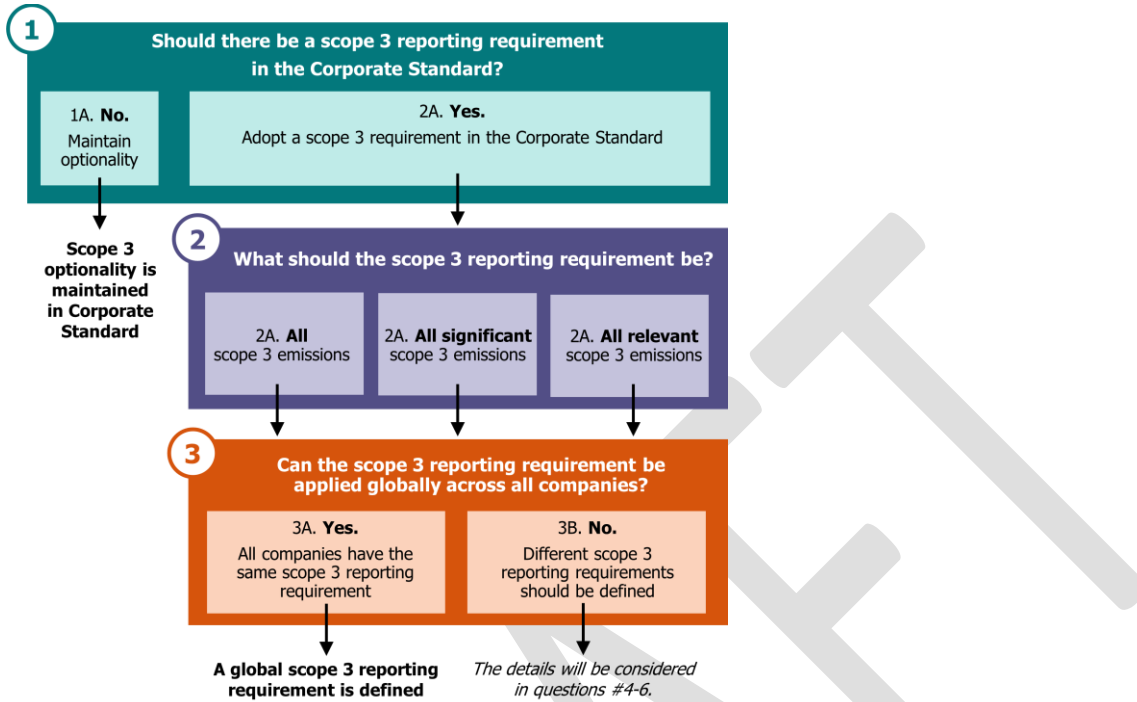
**Significance** = Size criterion for reference, i.e., the emissions "...contribute significantly to the company's total anticipated scope 3 emissions" - *Scope 3 Standard*

**Table 4. Proposed secondary questions** and options for considering the details of a scope 3 requirement in the *Corporate Standard*. These questions and options will only be considered if it is determined that a global scope 3 requirement cannot be applied across all companies (i.e., if option 3B is selected in Table 3).

Secondary questions	Options
4. If no to question 3, then what mechanism should be used to define different scope 3 reporting requirements?	4A. Conformance levels, for reporting entities to choose from 4B. Conformance levels, defined by reporter type 4C. 'Opt out' provisions, defined by reporter type
5. If yes to question 4B and/or 4C, what reporter type(s) should different levels of scope 3 reporting requirements be defined for?	5A. Company size 5B. Company sector 5C. New reporters and newly formed companies 5D. Geography 5E. SBTi SME pathway 5F. IFRS proportionality approach 5G. Other criteria
6. If no to question 3, how should the different scope 3 reporting requirement(s) be defined?	6A. Make scope 3 optional for a defined reporter type (i.e., "should" instead of "shall") 6B. Use different language to define the scope 3 reporting requirement (e.g., all/significant/relevant) 6C. Adjust the quantitative threshold for the inclusion of significant emissions 6D. Require upstream categories only 6E. Require specific categories only, such as those defined by the US EPA guide for small businesses 6F. Make the data quality guidelines more flexible [ <i>pending any updates from Scope 3 workstream</i> ] 6G. Other scope 3 reporting requirement

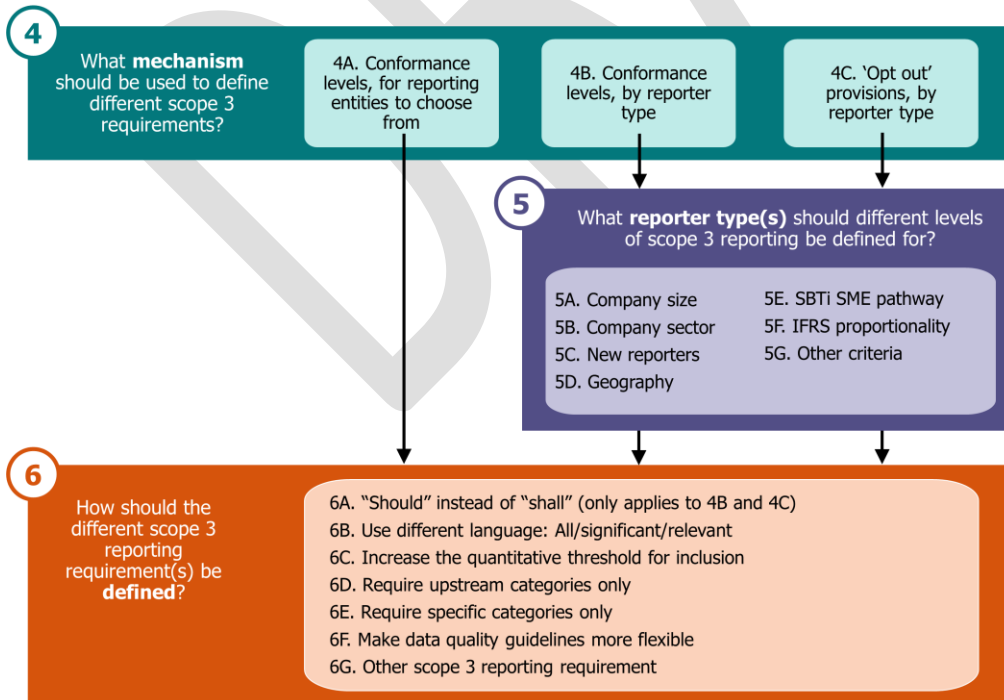
The questions and associated options for a scope 3 requirement can be organized as a decision tree or menu of options (**Figure 1, Figure 2**).

**Figure 1.** Conceptual diagram of the proposed primary questions (#1-3) and options for a scope 3 requirement in the *Corporate Standard*



**Figure 2.** Conceptual diagram of the proposed secondary questions (#4-6) and options for a scope 3 requirement in the *Corporate Standard*. These questions and options will only be considered if it is determined that a global scope 3 requirement cannot be applied across all companies.

If different scope 3 reporting requirements are to be defined...



## Question 1: Should scope 3 reporting be required in the Corporate Standard?

This question considers whether scope 3 emissions accounting and reporting should be required in the *Corporate Standard*. The two proposed options are:

- Option 1A: Maintain *Corporate Standard* optionality for scope 3 reporting
- Option 2B: Adopt a scope 3 reporting requirement in the *Corporate Standard*

These options are described below and are then assessed according to the GHG Protocol decision-making criteria in **Table 5**.

If a scope 3 requirement were to be adopted, then the details of that requirement would be developed in questions 2 through 6, which are described in the subsequent sections (questions 2-3) and a future paper (questions 4-6).

### Option 1A: Maintain Corporate Standard optionality for scope 3 reporting

This option would maintain optionality for scope 3 reporting in the *Corporate Standard*.

**Current language:** The following language is currently used to describe scope 3 reporting requirements in the *Corporate Standard*:

*"Companies shall separately account for and report on scopes 1 and 2 at a minimum.*

*Scope 3 is an optional reporting category that allows for the treatment of all other indirect emissions."* -page 25, *Corporate Standard*

The following specific reporting requirements are listed in chapter 9 of the *Corporate Standard*:

*"Required information: An outline of the operational boundaries chosen, and if scope 3 is included, a list specifying which types of activities are covered.*

*Optional Information: Emissions data from relevant scope 3 emissions activities for which reliable data can be obtained."* -page 63, *Corporate Standard*

**Two levels of conformance in GHG Protocol:** If this option is adopted, there would continue to be two levels of conformance available to reporters in the GHG Protocol:

- Conformance with the *Corporate Standard*, where scope 3 reporting is optional
- Conformance with the *Scope 3 Standard*, where scope 3 reporting is required

**Updates would still be needed:** It should be noted that if scope 3 optionality is maintained, it would still be important to update the *Corporate Standard* to use terminology that is consistent with the *Scope 3 Standard*. For example, the *Corporate Standard* introduced several scope 3 categories, whereas the *Scope 3 Standard* updated the approach by defining 15 scope 3 categories.

## Option 1B: Adopt a scope 3 requirement in the Corporate Standard

This option would adopt a scope 3 emissions accounting and reporting requirement in the *Corporate Standard*.

The specifics of a scope 3 requirement would not be determined through this question; instead, it would be a determination that a scope 3 requirement in some form should be adopted.

The details of a scope 3 requirement would be determined through questions 2 through 6 on the following topics, which are further detailed below (#2-3) and in a future discussion paper (#4-6):

2. What should the scope 3 requirement be? All/relevant/significant emissions
3. Can the scope 3 reporting requirement be applied globally across all companies?
4. What mechanism should be used to define different scope 3 requirements?
5. What reporter type(s) should different levels of scope 3 reporting be defined for?
6. How should the different scope 3 reporting requirement(s) be defined?

### *Decision-making criteria and relevant guidance from other programs: Question 1*

**Table 5. Decision-making criteria for question 1: Should scope 3 reporting be required in the Corporate Standard?** Options and criteria are assessed with pros and cons. The degree to which an option is aligned with each criterion is qualitatively assessed and identified through a green (most aligned), yellow (mixed alignment), orange (least aligned) ranking system. Criteria are marked 'NA' if not applicable for a given topic.

Criteria	Option 1A: Maintain Corporate Standard optionality for scope 3 reporting	Option 2B: Adopt a scope 3 requirement in the Corporate Standard
<b>Scientific integrity</b>	Cons: - Compromised by gap in emissions accounting	Pros: - Promoted by more complete emissions accounting
<b>GHG accounting and reporting principles</b>	Pros: - Accuracy (for the scope 1+2 emissions reported), consistency (for historic reporting if companies have not reported scope 3 previously) Cons: - <b>Relevance, completeness, transparency</b>	Pros: - <b>Relevance, completeness, transparency</b> Cons: - <b>Accuracy</b> (uncertainty in scope 3), consistency (for entities missing historic scope 3 reporting)
<b>Support decision-making that drives ambitious global climate action</b>	Pros: - Clearly defined responsibility for scope 1+2 emissions reductions could encourage action Cons: - <b>Underreporting</b> can miss reduction opportunities	Pros: - More comprehensive reporting can <b>reveal reduction opportunities</b> - Scope 3 emissions data can spur <b>action across value chains</b> Cons: NA

	<p>- Insufficiently captures companies' <b>risk exposure</b> related to GHG emissions</p>	
<p><b>Support programs based on GHG Protocol and uses of GHG data</b></p>	<p>Pros:  <ul style="list-style-type: none"> <li>• <b>Interoperable</b> with most programs/standards</li> </ul>                     Cons:  <ul style="list-style-type: none"> <li>• Less complete data set limits support of users in decision-making and analysis</li> </ul> </p>	<p>Pros:  <ul style="list-style-type: none"> <li>• <b>Aligned</b> with IFRS S2, ESRS E1, CA SB 253, SBTi, CDP</li> <li>• More complete data set better <b>supports more users</b> of GHG data</li> </ul>                     Cons:  <ul style="list-style-type: none"> <li>• <b>Inhibits interoperability</b> with programs that do not require scope 3 reporting</li> </ul> </p>
<p><b>Feasibility to implement</b></p>	<p>Pros:  <ul style="list-style-type: none"> <li>• Makes compliance <b>more accessible</b> for a range of reporting organizations</li> </ul> </p>	<p><i>Note: Feasibility depends on how requirement is defined</i></p> <p>Pros: NA</p> <p>Cons:  <ul style="list-style-type: none"> <li>• More challenging for reporters (e.g., data, resource, and time-intensive)</li> <li>• Compliance is less accessible for less advanced reporters, such as small organizations, new reporters, and reporters/suppliers in low- and middle-income countries</li> </ul> </p>

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## Question 2: What should the scope 3 reporting requirement be?

This question considers what emissions should be required in a scope 3 reporting requirement. There are four proposed options:

- Option 2A: Companies shall account for **all** scope 3 emissions as defined in the Scope 3 Standard and disclose and justify any exclusions
- Option 2B: Companies shall account for all **relevant** scope 3 emissions as defined in the Scope 3 Standard and disclose and justify any exclusions
- Option 2C: Companies shall account for all **significant** scope 3 emissions as defined in the Scope 3 Standard and disclose and justify any exclusions
- Option 2D: Other scope 3 emissions requirement

These options are described below and are then assessed according to the GHG Protocol decision-making criteria in **Table 7**.

This question will only be taken on if it is agreed that a scope 3 requirement will be adopted (i.e., option 1B above).

**Justifiable exclusions:** All options for question 2 could allow for justifiable exclusions. The topic of justifiable exclusions will be addressed in more detail later in the scope of work. Justifiable exclusions are currently described as follows:

*"Companies **may exclude** scope 3 activities from the inventory, provided that any exclusion is disclosed and justified." - Scope 3 Standard, page 59*

This clause gives companies discretion to exclude emissions from their inventory. The reason for the exclusion is up to the company. Examples include data quality and data gaps.

**Scope 3 Technical Working Group:** It should be noted that the Scope 3 Technical Working Group is also considering revisions to the Scope 3 Standard on boundary setting for a complete scope 3 inventory and whether/how to consider relevance for activities exclusion. Any outputs from the Scope 3 workstream will be inputs to the Corporate Standard workstream discussion, and outcomes will be harmonized to the extent possible.

### Option 2A: All scope 3 emissions are required

This option would require that ALL scope 3 emissions are reported to be in conformance with the *Corporate Standard*. Justifiable exclusions could be allowed with this option and will be considered in full in a future question. The draft text could read as follows:

*Companies shall account for **all** scope 3 emissions as defined in the Scope 3 Standard and disclose and justify any exclusions*

**Aligned with current Scope 3 Standard (2011):** The Scope 3 Standard currently requires that all scope 3 emissions are reported, and that any exclusions are disclosed and justified. This option would

therefore be aligned with the current *Scope 3 Standard*, which includes the following scope 3 accounting requirements:

*"Companies **shall** account for all scope 3 emissions as defined in [the Scope 3 Standard] and disclose and justify any exclusions.*

*Companies **shall** account for emissions from each scope 3 category according to the minimum boundaries provided in table 5.4.*

*Companies **may** include emissions from optional activities within each category. Companies shall account for scope 3 emissions of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF<sub>6</sub>), if they are emitted in the value chain.*

*Companies **may exclude** scope 3 activities from the inventory, provided that any exclusion is disclosed and justified."* -Scope 3 Standard, p. 60

The *Scope 3 Standard* also includes language on guidance for excluding emissions:

*"Companies **should** follow the **principles** of relevance, completeness, accuracy, consistency, and transparency when deciding whether to exclude any activities from the scope 3 inventory.*

*Companies **should not** exclude any activity that would compromise the relevance of the reported inventory. (See table 6.1)*

*Companies **should** ensure that the scope 3 inventory appropriately reflects the GHG emissions of the company, and serves the decision-making needs of users, both internal and external to the company.*

*In particular, companies **should not** exclude any activity that is expected to contribute **significantly** to the company's total scope 3 emissions."* - *Scope 3 Standard*, pages 59-60

**Justifiable exclusions:** Under the *Corporate Standard* and *Scope 3 Standard*, reporters currently have discretion to exclude sources, facilities, and/or operations from their inventory, provided they disclose and justify any exclusions (page 63, *Corporate Standard*; page 70, *Scope 3 Standard*).

Justifiable exclusions would provide flexibility for reporters to exclude some emissions sources even with a complete scope 3 reporting requirement.

Refining the definition and guidance for justifiable exclusions will be under consideration during the Standards revision process. For example, the Scope 3 Technical Working Group will consider justifiable exclusions on the basis of relevance or significance, and the Corporate Standard Technical Working Group will consider justifiable exclusions for the entire inventory related to, for example, data limitations.



## Option 2B: All relevant scope 3 emissions are required

This option would only require that RELEVANT scope 3 emissions are reported to be in conformance with the *Corporate Standard*. Justifiable exclusions could be allowed with this option and will be considered in full in a future question. The draft text could read as follows:

*Companies shall account for all **relevant** scope 3 emissions as defined in the Scope 3 Standard and disclose and justify any exclusions*

**GHG accounting and reporting principle of relevance:** This option refers to the GHG accounting and reporting principle of relevance, which is defined as follows:

*"Ensure the GHG inventory appropriately reflects the GHG emissions of the company and serves the decision-making needs of users – both internal and external to the company." – Page 7, Corporate Standard*

**Six criteria for relevance:** The Scope 3 Standard further defines 6 criteria for identifying relevant scope 3 activities: Size, influence, risk, stakeholders, outsourcing, and sector guidance (**Table 6**). The current *Scope 3 Standard* recommends (but does not require) that the relevance criteria be considered:

*"Companies **should not** exclude any activity that would compromise the relevance of the reported inventory." -Page 60, Scope 3 Standard*

**Defining relevance:** The relevance criteria cover a broad range of emissions and activities, and they can be open to interpretation. If this option is selected, the requirements to meet relevance may need to be more clearly defined. The following are example questions that might be discussed to define relevance:

- Does relevance mean meeting all six criteria, at least 1 criteria, or something else?
- Should relevance be assessed by activity or by category?

**Draft language:** This option would take this relevance statement a step further by requiring the consideration of relevance for emissions inclusion. As an example, the above language could be revised to replace "should" with "shall":

*"Companies **SHALL not** exclude any activity that would compromise the relevance of the reported inventory." -Scope 3 Standard, pg 59*

It should be noted that the Scope 3 Technical Working Group is considering revisions to the *Scope 3 Standard* that would clarify how the relevance criteria should be applied.

**Table 6.** Criteria for identifying relevant scope 3 activities. Source: *Scope 3 Standard*, Table 6.1

Criteria	Description
Size/Magnitude*	They contribute significantly to the company's total anticipated scope 3 emissions ( <i>see section 7.1 of the Scope 3 Standard for guidance on using initial estimation methods</i> )
Influence	There are potential emissions reductions that could be undertaken or influenced by the company ( <i>see box 6.2 of the Scope 3 Standard</i> )

Risk	They contribute to the company's risk exposure (e.g., climate change related risks such as financial, regulatory, supply chain, product and customer, litigation, and reputational risks) (see table 2.2 of the Scope 3 Standard)
Stakeholders	They are deemed critical by key stakeholders (e.g., customers, suppliers, investors, or civil society)
Outsourcing	They are outsourced activities previously performed in-house or activities outsourced by the reporting company that are typically performed in-house by other companies in the reporting company's sector
Sector guidance	They have been identified as significant by sector-specific guidance
Other	They meet any additional criteria for determining relevance developed by the company or industry sector

\*Although the Scope 3 Standard uses the term "size", the term "magnitude" can be used interchangeably.

## Option 2C: All significant scope 3 emissions are required

This option would only require that SIGNIFICANT scope 3 emissions are reported to be in conformance with the *Corporate Standard*. Justifiable exclusions could be allowed with this option and will be considered in full in a future question. The draft text could read as follows:

*Companies shall account for all **significant** scope 3 emissions as defined in the Scope 3 Standard and disclose and justify any exclusions*

**Defining significance:** "Significance" is used to describe the size/magnitude criterion for relevance. The size/magnitude criterion states the following:

*"They contribute significantly to the company's total anticipated scope 3 emissions." - page 61, Scope 3 Standard*

This option can therefore also be framed as requiring only the emissions that meet the size criterion for relevance. In this case, reporters would not be required to consider other relevance criteria (influence, risk, stakeholders, outsourcing, sector guidance) when determining whether emissions should be included in their inventory.

**Defining a significance threshold:** If only "significant" emissions are to be required, a threshold would need to be defined. The following questions are examples of what might be discussed:

- Should the significance threshold be quantitative?
- If so, what should the quantitative threshold be?
- Should the threshold be by activity, by category, or cumulative?
- Should the threshold be relative to total scope 3 emissions or total emissions (i.e., scope 1 + scope 2 + scope 3)?

The Scope 3 Technical Working Group is also considering whether a significance/magnitude threshold should be defined, and if so, what it should be. Their recommendation will be used as an input to the Corporate Standard Technical Working Group.

The Scope 3 TWG is considering the following question and options:

- Question: Should a magnitude threshold be defined for determining relevance?
- Options:
  - Maintain current language: Relevance of emissions size is at the discretion of the preparer
  - Magnitude threshold is required, to be defined at the discretion of the preparer
  - Magnitude threshold is required, to be defined by the Scope 3 Standard
  - Default magnitude threshold is defined by the Scope 3 Standard, with an option for reporting entities to disclose and justify if another threshold is used
  - Require all scope 3 emissions to be accounted for regardless of magnitude

See the [Scope 3 Technical Working Group Discussion Paper B.1 on Boundary Setting](#) for more details.

### Option 2D: Other scope 3 emissions requirement

This option is available to define another way of requiring scope 3 emissions.

#### *Decision-making criteria: Question 2*

#### **Table 7. Decision-making criteria for question 2: What should the scope 3 requirement be?**

Options and criteria are assessed with pros and cons. The degree to which an option is aligned with each criterion is qualitatively assessed and identified through a green (most aligned), yellow (mixed alignment), orange (least aligned) ranking system. Criteria are marked 'NA' if not applicable for a given topic. *Note: Option 2D (other) is excluded from the decision-making criteria analysis since it is not clearly defined.*

Criteria	Option 2A: ALL scope 3 emissions are required	Option 2B: All RELEVANT scope 3 emissions are required	Option 2C: All SIGNIFICANT scope 3 emissions are required
<b>Scientific integrity</b>	NA – Covered by other criteria	NA – Covered by other criteria	NA – Covered by other criteria

<p><b>GHG Protocol accounting and reporting principles</b></p>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• <b>Completeness</b> (if reporters are able to report all emissions), <b>relevance</b></li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• <b>Transparency</b> (if reporters do not self-report gaps), <b>accuracy</b> (challenging to accurately report all emissions)</li> </ul>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• <b>Strongly promotes relevance</b> (with all relevant emissions required), <b>completeness</b> (within the defined boundary), <b>transparency</b> (improved with documentation on relevance criteria)</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• <b>Accuracy</b> (challenging for all relevant sources)</li> </ul>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• <b>Accuracy</b> (for the select scope 3 emissions reported), <b>completeness</b> (within the defined boundary), <b>transparency</b> (clarity with a significance threshold)</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• <b>Could hinder relevance</b> (since it would be constrained to only one criterion: Significance)</li> </ul>
<p><b>Support decision-making that drives ambitious global climate action</b></p>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• Potentially informs decision-makers and allows entities to achieve action</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• Since exclusions would likely still be necessary, there could be unclear and uneven exclusions, which may lead to <b>underreporting</b> of relevant emissions</li> </ul>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• The relevance requirement could <b>focus resources/effort</b> and allow more time for action</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• Additional burden of relevance assessment could be at the cost of action</li> </ul>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• <b>Facilitates climate action</b> through the identification and prioritization of emissions reduction opportunities across the value chain</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• Additional burden of significance assessment could be at the cost of action</li> </ul>
<p><b>Support programs based on GHG Protocol and uses of GHG data</b></p>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• Interoperable with most programs and standards, where external programs define more specific requirements than GHG Protocol</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• <b>Use of data hindered</b> by reduced comparability due to broad requirement</li> <li>• In practice, exclusions will likely still occur, which could lead to uneven data sets</li> </ul>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• Interoperable with most programs and standards, especially those that require the same criteria as GHG Protocol relevance (e.g., IFRS S2, ESRS E1, ISO)</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• Use of data somewhat hindered due to reduced comparability of broad requirement</li> <li>• Qualitative assessments of <b>relevance criteria may be subjective and applied unevenly</b>, leading to uneven data sets</li> <li>• May not be interoperable with some sectoral guidance</li> </ul>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• Interoperable with most programs and standards, especially those with a quantitative threshold (e.g., CDP, SBTi)</li> <li>• <b>Better support to users due to clearly defined requirement</b>, facilitating interpretation and assessment of the data</li> <li>• Improved comparability due to clarity in reporting requirement supports users of the data</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• May not be interoperable with some sectoral guidance</li> </ul>

<p><b>Feasibility to implement*</b></p>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• Maintaining justifiable exclusions would improve feasibility</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• Very challenging for most/all reporters to achieve reporting for all emissions</li> </ul>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• More clearly defined</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• Additional burden for relevance analysis</li> <li>• Not accessible for less advanced reporters</li> </ul>	<p>Pros:</p> <ul style="list-style-type: none"> <li>• <b>Most clearly defined</b></li> <li>• <b>Most accessible</b> for all reporters</li> </ul> <p>Cons:</p> <ul style="list-style-type: none"> <li>• Additional burden of significance assessment</li> </ul>
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\*The feasibility for all options would be improved if justifiable exclusions are maintained. Justifiable exclusions will be considered in a future question.

DRAFT

## Question 3: Can the scope 3 reporting requirement be applied globally across all companies?

This question considers whether the scope 3 reporting requirement identified above (question 2) can be uniformly applied across all reporting entities. There are two proposed options:

- Option 3A: All companies have the same scope 3 reporting requirements
- Option 3B: Different scope 3 requirements should be defined

If option 3A is selected, then there would be a single harmonized scope 3 reporting requirement. If option 3B is selected, then the details of a differentiated reporting requirement would be determined in questions #4-6.

These options are described below and are then assessed according to the GHG Protocol decision-making criteria in **Table 8**.

### Option 3A: Yes. All companies have the same scope 3 reporting requirement

This option would adopt a uniform scope 3 reporting requirement in the *Corporate Standard*. The reporting requirements would be the same for all companies.

*If this option is selected, then the following questions on differentiated reporting requirement(s) (#4-6) would not be considered.*

### Option 3B: No. Different scope 3 reporting requirements should be defined

This option would define different reporting requirements for specific reporters or circumstances. This would result in two or more sets of scope 3 requirements, such as conformance levels or different requirements by reporter type. The details of the different scope 3 reporting requirements would be determined in questions #4-6.

#### *Decision-making criteria: Question 3*

**Table 8. Decision-making criteria for question 3: Can the scope 3 reporting requirement be applied globally across all companies?** Options and criteria are assessed with pros and cons. The degree to which an option is aligned with each criterion is qualitatively assessed and identified through a green (most aligned), yellow (mixed alignment), orange (least aligned) ranking system. Criteria are marked 'NA' if not applicable for a given topic. Option 3A assumes that justifiable exclusions will be made more prescriptive.

Criteria	Option 3A: All companies have the same scope 3 reporting requirement	Option 3B: Different scope 3 reporting requirements should be defined
<b>Scientific integrity</b>	NA – Covered by other criteria	NA – Covered by other criteria
<b>GHG Protocol accounting and reporting principles</b>	Pros: <ul style="list-style-type: none"> <li>• <b>Completeness, relevance</b> (to some extent; would be missing context-dependent assessment), <b>consistency</b> (no changes in reporting requirements)</li> </ul> Cons: <ul style="list-style-type: none"> <li>• Accuracy (when assumptions needed)</li> <li>• Transparency (to some extent, since guidance would be less prescriptive)</li> </ul>	Pros: <ul style="list-style-type: none"> <li>• <b>Transparency, accuracy</b> (for the emissions reported), completeness (for the defined boundaries)</li> </ul> Cons: <ul style="list-style-type: none"> <li>• Relevance, consistency (if reporter’s requirements change)</li> </ul>
<b>Support decision-making that drives ambitious global climate action</b>	Pros: <ul style="list-style-type: none"> <li>• <b>More complete emissions data set</b>, to inform internal and external decision-making across the value chain</li> </ul> Cons: <ul style="list-style-type: none"> <li>• Potential for reduced accuracy could hinder informed decision-making</li> </ul>	Pros: <ul style="list-style-type: none"> <li>• Due to a reduced reporting burden, reporters might have <b>more capacity for action</b></li> </ul> Cons: <ul style="list-style-type: none"> <li>• Could result in <b>underreporting</b></li> <li>• Missing relevant emissions could impact planning and implementation</li> </ul>
<b>Support programs based on GHG Protocol and uses of GHG data</b>	Pros: <ul style="list-style-type: none"> <li>• <b>Interoperable and aligned</b> with most programs/standards</li> <li>• May provide a better overview of the company’s impacts, including supporting intra- and inter-company considerations and decision-making</li> </ul>	Pros: <ul style="list-style-type: none"> <li>• More prescriptive requirements could enable some comparability</li> </ul> Cons: <ul style="list-style-type: none"> <li>• <b>Could reduce interoperability</b> with some programs/standards due to different requirements</li> <li>• Impedes interpretation and full context of a company’s impacts for intra- and inter-company considerations and decision-making</li> </ul>
<b>Feasibility to implement</b>	Cons: <ul style="list-style-type: none"> <li>• <b>Reduced accessibility</b> for many reporters due to increased reporting burden. Note: Accessibility would be improved if justifiable exclusions are allowed</li> </ul>	Pros: <ul style="list-style-type: none"> <li>• <b>More accessible</b> for some reporters</li> </ul>