Scope 3 TWG
Group C
Meeting Minutes

Meeting 2

Date: November 27, 2024

Time: 09:00 – 11:00 AM ET

Location: Virtual

Attendees

Technical Working Group Members

1. Karis Choi, HSBC
2. Ashwini Hingne, WRI
3. Alexandre Kelemen, Mangue Tech
4. Meghan Kennedy, General Motors
5. Nadia Montoto, KPMG
6. Hetal Patel, Phoenix Group
7. Colin Powell, PwC
8. Kristian Rönn, Normative
9. James Salo, S&P Global Sustainable1
10. Fabiola Isabel Schneider, University College Dublin
11. Enric Tarrats, Banc Sabadell
12. Francesca Testa, CDP
13. Junfeng Zhao, GSG

Guests

N/A

GHG Protocol Secretariat

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

Documents referenced

1. Discussion Paper C.1 - Investments - Version 2.0
2. Scope 3 - Group C - Meeting C.2 - Presentation – 20241127 ("Presentation")

Summary

Item	Topic and Summary	Outcomes
1	**Agenda, housekeeping, decision-making criteria** The Secretariat presented the meeting agenda, housekeeping rules, decision-making criteria, and notes on the use of precise standard setting language.	• Secretariat to send decision-making criteria to TWG Group C when available online
2	**Issue 1: Applicability for non-FIs** The Secretariat presented the issue: Applicability of scope 3 category 15 emissions for non-financial institutions (i.e., companies that do not perform financial services), including a discussion of, specifically: Materiality, minimum boundaries, absolute versus percentage cutoffs, and industry classification systems. The TWG group completed discussion of the topic. No poll was held.	• Secretariat to follow-up with a feedback form by December 5th for TWG submission by December 12th or an in-meeting poll on December 19th
3	**Issue 2.5: Consolidation approaches** The Secretariat presented previously presented slides from meeting #1 on the topic of whether the GHG Protocol Corporate Standard and Scope 3 Standard should not permit the equity share approach for FIs and/or non-FIs that report scope 3 category 15 emissions. The TWG group completed discussion of the topic. No poll was held.	• Secretariat to follow-up with a feedback form by December 5th for TWG submission by December 12th or an in-meeting poll on December 19th
4	**Issue 2.6: Data quality score** The Secretariat presented previously presented slides from meeting #1 on the topic of data quality scoring, specifically: Consider harmonizing a data quality scoring method between the GHG Protocol Scope 3 Standard (and/or corporate standards) and PCAF's Financed Emissions Standard (Part A). The TWG group completed discussion of the topic. No poll was held.	• Secretariat to follow-up with a feedback form by December 5th for TWG submission by December 12th or an in-meeting poll on December 19th
5	**Issue 3: Other investment/asset types** The Secretariat presented the issue: Consider the inclusion/exclusion of other investment types and discussed the following types with the TWG: 1. Pension funds 2. Cash deposits & cash equivalents 3. Endowment funds & donations (thereto) 4. Mutual funds (mangers)	No outcome • Secretariat to continue discussions with Group C concerning investment/asset types in the next meeting (C.3) on December 19th
6	**Time planning and next steps** The Secretariat discussed meeting times and the next steps.	• Secretariat to distribute the link to the meeting recording by November 28th • Secretariat to distribute the meeting minutes and a feedback form by December 5th

Discussion and outcomes

1. Agenda, housekeeping, decision-making criteria

- Refer to Presentation slides 3-7
- Secretariat presented the meeting agenda, housekeeping rules, decision-making criteria, and notes on the use of precise standard setting language

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

- Refer to Presentation slides 8-12
- The Secretariat presented the applicability of scope 3 category 15 emissions for non-financial institutions (non-FIs, i.e., companies that do not perform financial services), the current standard approach, and options for consideration:
  - Option 1: Make clear that both financial institutions (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
- The Secretariat presented indicative poll results concerning the applicability of scope 3 category 15 for non-financial institutions from the poll of TWG members held asynchronously between the previous meeting (November 7th) and this meeting

<u>Discussion</u>

- One TWG member requested clarity on whether the follow-up process is that (1) the Secretariat provides draft edits and language for TWG members to (2) review and (3) provide comments
- The Secretariat noted directional consensus on applicability for non-financial institutions and said that the next step is to propose text edits and language

<u>Outcomes</u>

- Secretariat to follow-up with draft edits and language on applicability of category 15 for non-financial institutions for the TWG members to review for final comments

3. Issue 2.5: Consolidation approaches

- Refer to Presentation slides 16-18
- The Secretariat briefly presented four out of six general topics that concern harmonizing the requirements and guidance between the GHG Protocol *Scope 3 Standard* and PCAF's standards
- The Secretariat presented slides on the fifth topic of, specifically, consolidation approaches: Consider whether the GHG Protocol *Corporate Standard* and *Scope 3 Standard* should not permit the equity share approach for FIs and/or non-FIs that report scope 3 category 15 emissions
- 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 consolidation 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
- The Secretariat presented indicative poll results concerning consolidation approaches from the poll of TWG members held asynchronously between the previous meeting (November 7th) and this meeting
- The Secretariat noted that the topic of consolidation approaches is being considered by the *Corporate Standard* TWG; and that feedback from Group C on the topic of consolidation will be provided to the *Corporate Standard* TWG

<u>Discussion</u>

- One TWG member preferred Option 3 which aligns with PCAF. This member requested clarity on two questions from the survey, the results from which may have indicated a misunderstanding by the members

- The Secretariat acknowledged the potential confusion, explaining that the intent was to pose the question in two ways with slightly different constraints to arrive at more nuanced feedback
- Another TWG member preferred Option 3, emphasizing that it's onerous for organizations to use different consolidation approaches and that a single approach would mitigate this; further, this TWG member recommended prioritizing (1) interoperability and (2) comparability when considering this issue (including because nearly all FIs currently using PCAF rely on operational control)
- Another TWG member preferred Option 3, agreeing that interoperability is the most relevant factor to consider and, separately, inquired whether maintaining the equity share approach would imply that FIs or companies should still report using this approach, as is currently recommended in the *Standard* in Table 5.9
- The Secretariat clarified that maintaining the equity share approach effectively means that no change would be made to the existing rules
- The same TWG member asked whether introducing the requirement of using only the operational control consolidation approach would imply that companies could then never use the equity share consolidation approach internally (noting that some companies prepare internal figures using two or more consolidation approaches)
- The Secretariat clarified that this would mean that companies could *not* use the equity share approach for publicly disclosed inventories and claim *Scope 3 Standard* compliance; companies are free to use any non-compliant method(s) internally
- One TWG member inquired whether *not* permitting the equity share consolidation approach would mean that a company owning a minority and/or non-controlling equity stake in a joint venture would then not report their emissions pro rata
- The Secretariat clarified that not permitting the equity share consolidation approach for companies that report category 15 emissions means that said reporting companies would have to report their financed emissions in scope 3 category 15 and nowhere else (unlike companies that rely on the equity share consolidation approach which therefore report the scope 1, scope 2, and scope 3 emissions of investees, i.e., their financed emissions, in the investor's, i.e., reporting company's, scope 1, scope 2, and scope 3 inventories)
- One TWG member asserted that only permitting the operational control approach would support comparability and satisfy most decision-making criteria
- The Secretariat inquired whether the membership is coalescing around Option 3
- One TWG member answered that it appears like there is broad alignment for Option 3, and reiterated that optimizing for comparability and interoperability is more important than determining a preference for any particular or single approach

Outcomes

- Secretariat to distribute asynchronous survey to record this consensus
- Secretariat to follow-up with draft edits and language on consolidation approaches as it concerns category 15 for the TWG members to review and provide comments

4. Issue 2.6: Data quality score

- Refer to Presentation slides 19-23
- The Secretariat reviewed previously presented slides on the topic of data quality scoring, specifically: Consider harmonizing a data quality scoring method between the GHG Protocol Scope 3 Standard (and/or corporate standards) and PCAF's Financed Emissions Standard (Part A)
- Options for considerations:
    - Option 1: GHG Protocol to not adopt PCAF's data quality scoring method
    - Option 2: GHG Protocol to adopt PCAF's scoring method (for both FIs and non-FIs)
    - Option 3: GHG Protocol to develop its own data quality scoring method (by Scope 3 TWG Group A)
- The Secretariat presented indicative poll results concerning data quality scoring from the poll of TWG members held asynchronously between the previous meeting (November 7th) and this meeting

- The Secretariat noted that the topic of data quality is being considered by the *Scope 3 TWG* Group A; and that feedback from Group C on the topic of consolidation will be provided to the Group A as an input for further considerations

Discussion

- The Secretariat noted that Scope 3 TWG Group A is considering an option to disaggregate scope 3 emissions reporting based on tiers or data quality, for example, based on calculation methods (like PCAF)
- One TWG member has strong reservations concerning any use of the term "data quality score" while strongly approving of enhanced transparency requirements on data sources and information that describes data quality, including via the development of a data hierarchy
- One TWG member disagreed, asserting that GHG Protocol should develop a framework of scoring data quality to incentivize better data quality, stating that the term "hierarchy" doesn't differ much from "scoring" as both would differentiate higher vs. lower data quality. The TWG member expressed their preference for Option 3
- One TWG member asserted that data quality scoring is difficult and that many small-to-medium-sized businesses (SMEs) that would unavoidable start their GHG accounting and reporting journey with lower data quality may be dis-incentivized from improving their data quality; further, many SMEs lack the capacity or budget to improve data quality, and this could put non-FIs with limited category 15 emissions at a disadvantage or it could be unreasonable to expect non-FIs to conform
- This TWG member acknowledged their employer did use data quality scores internally to pursue data improvements, but didn't believe that scoring data quality was appropriate to require
- One TWG member agreed with Option 3, explaining that their employer had developed several bespoke data quality scores for clients to help them track their data quality over time, informed by the data hierarchy in the *Scope 3 Standard*, and that data quality scores could facilitate comparability and doesn't see the use of a data quality score as a public disincentive
- This TWG member asserted that FIs using PCAF's data quality scores improved their scores over time, and didn't see data quality scoring as a public disincentive; believing that it could be part of the reporting process
- One TWG member explained that PCAF's data quality scoring method is fairly entrenched among FIs and expressed concern if GHG Protocol adds language to the *Scope 3 Standard* that could force companies to move away from using PCAF's data quality scoring method
- This member supported Option 2 and recommended letting FIs rely on PCAF while giving non-FIs a simpler method, especially if their category 15 emissions are minor
- One TWG member agreed that PCAF scoring is widespread and asked whether PCAF is revising its data quality scoring method
- This member further asked whether Option 2 and Option 3 could be combined, with the GHG Protocol contributing to updates of PCAF's scoring system
- The Secretariat responded that it was stated on a previous call that PCAF is reviewing potential inconsistences or potential manipulation of the PCAF data quality scoring method, and that the Secretariat will follow up on this point to confirm it
- One TWG member supported "data quality score" as a term, and explained that sometimes reporting companies willfully choose lower-quality data that result in lower reported emissions than higher-quality data, and therefore data quality scores (e.g., how results were calculated, whether the data source or data quality score is good enough, etc.) should be reported next to emissions data
- One TWG member said that if GHG Protocol's data quality scoring method is not made consistent with PCAF's data quality scoring method, then context would need to be provided, for example, clarifying that unverified investee emissions data that is GHG Protocol compliant, which would score high with PCAF data quality scoring method, may not be comprehensive
- Further, this TWG member said that the vast majority of disclosures need some kind of adjustment to be comprehensive
- One TWG member expressed concern requiring non-FIs to comply with PCAF's data quality scoring method (Option 2), because most non-FIs have never done it (including because category 15 is minor for them) and that this would add too much work
- This member recommended a different requirement for non-Fis

Outcomes

- Secretariat to confirm whether PCAF's data quality scoring method is being reviewed by PCAF
- Secretariat to distribute asynchronous survey to record the final recommendation on data quality scoring options by TWG members

5. Issue 3: Other investment/asset types

- Refer to Presentation slides 24-31. Note that slides 32-39 were not presented, covered, or discussed
- The Secretariat presented descriptions, stakeholder feedback, current standard approach(es), and options for consideration for the following investment/asset types:
  - Pension funds
  - Cash deposits & cash equivalents
  - Endowment funds (investors & donors)
  - Mutual funds (managers)
- The remaining investment types (including clients of mutual funds) were not presented, covered, nor discussed in this meeting and will be considered in the following meeting on December 19th

Discussion

Pension funds:

- The Secretariat inquired whether reporting companies that make payments to retirement/pension funds to compensate employees should record the emission attributable to investments made by retirement/pension funds on behalf of employees
- One TWG member stated that in discussions with stakeholders over the years, many believe that the biggest impact that large companies can have for category 15 would be investments in and by pension plans; and that the only way to compel companies to assess the GHG-intensity of these investments would be to make reporting retirement/pension plans required
- One TWG member noted their preference to require pension funds reporting for both FIs and non-Fis
- The Secretariat explained that a potential economic allocation or attribution ratio could be to treat the compensation payments made on behalf of an employee as the numerator and the total asset under management (AUM) of a retirement/pension fund as the denominator. This could present challenges accounting for escalating fund values and annual payments (adjusting for nominal vs. real value of AUM). Further, it is unclear whether or how investments made by a former employer (Company A) on behalf of an employee could or should be passed on to the next employer (Company B)
- One TWG member raised concern regarding geographical differences and inquired whether a rule requiring the reporting of pension fund investments on behalf of employees, by companies (employers), would only apply to select jurisdictions, noting that many companies cannot track how private or public pensions are being invested in some jurisdictions and that requiring this would overburden said companies
- The Secretariat acknowledged that in some countries, pensions are managed by the state and some countries mandate pension payments while others do not; some stakeholders raised that companies have different levels of influence of pensions fund investments
- One TWG member said that, in many cases, employees control how pension fund managers invest their funds, and that employees may have different goals with their pension funds at different points in their lives
- This member inquired whether reporting companies would need to rely on pension funds to report average GHG-intensities so companies and employees can assess different fund allocations
- One TWG member questioned whether pensions are ever a reporting company's investment, given that employees own their pensions; and thus, is this even an investment (category 15)
- The Secretariat explained that some stakeholders believe that, because companies have some control over which pension funds to offer employees, and because pension funds could invest in low- vs. high-carbon intensive asset types, therefore companies should include it in their category 15

- The Secretariat asked whether requiring, exclusively, pension funds to report the emissions attributable to investments using clients' funds would provide enough transparency and accountability in the market
- One TWG member asked whether an influence criterion could be introduced
- Another TWG member seconded introducing influence as a criterion for inclusion
- One TWG member warned that using influence as the criterion for inclusion could be difficult and recommended applying a consistent (top-down) principle(s) for considering other investment/asset types; mandating that companies report the emissions from pension fund investments (owned by said companies' employees) would be akin to requiring that companies report the emissions caused by an employee's personal (not professional) use of a company car
- One TWG member asserted that it's important to consider the power balance between employers and employees, explaining that employees often have limited transparency over pension plans and/or are simply not financially or GHG-impact literate and could not assess pension fund investments personally
- This member asserted that showing employees the GHG-intensities of pension investment offerings could make a big difference; in this light, employers have a lot of power
- This TWG member also warned that the diffusion of responsibility could be perpetuated if optionality is maintained, for example, pension funds may choose not to report because they are representing their clients' funds, while companies may choose not to report because they don't control the investments, resulting in no fund or company taking any responsibility
- The Secretariat noted that this argument mirrors current language in the *Scope 3 Standard* which explains that, in the interest of companies taking responsibility, double counting is not a problem

Cash and cash equivalent:

- The Secretariat asked whether cash deposits should be treated as a different type of asset, for accounting and reporting purposes, from cash equivalents
- One TWG member asserted that this is a complex topic, including because FIs have minimum requirements to hold a certain amount of cash, including with a central bank; and while there is a clear link between cash being used for a bank's lending activities, however, some of the cash is not lent
- The Secretariat asked whether a simple ratio of depositor's deposits funds (numerator) and total deposited funds by all depositors (denominator) could be applied to a bank's total AUM and associated GHG emissions
- The same TWG member asserted that this would require significant development and recommended simulating how much this could or would affect a reporting company's scope 3 category 15 emissions
- The Secretariat responded that appendices in *Discussion Paper C.1* summarizes such effects determined by studies performed by third-parties

Endowment funds:

- The Secretariat stated that the *Scope 3 Standard* is currently silent on endowment funds and asked whether the *Scope 3 Standard* should explicitly name category 15 as being applicable to endowment funds
- One TWG member asserted that this is a reasonable interpretation of the current standard language
- Another TWG member seconded this interpretation
- The Secretariat held an ad hoc poll on this interpretation and recorded three members, encouraging members who did not participate to explain disagreement with this interpretation
- No members expressed further views

Donations

- One TWG member expressed that this seems similar to pension funds (in terms of different levels of control or facilitation) and recommended relying on a principles-based approach to reviewing the inclusion or exclusion of investment/asset types

- One TWG member asserted that donations seem like managed investments but with more restrictions, and encouraged not requiring this investment/asset type (Option 2)
- One TWG member inquired whether TWG members should apply single-materiality (only accounting for the risk to a company) or double-materiality (including the long-term impact of the business activities to society) in their consideration, and highlighted that would affect their recommendation
- The Secretariat acknowledged the implications of considering this based on single- versus double-materiality, and asked whether any TWG members believe that a criterion for including an investment/asset type should be that a company is taking risk and (potentially) earning income from said investment/asset
- One TWG member asserted that the *Scope 3 Standard* doesn't require that companies only account for emissions that generate revenue for any other categories and recommended relying on control as the determinant
- This member asserted that, because companies control where to allocate their cash, including to donate to endowment funds, therefore it's in their control regardless of whether they stand to lose money or make a return
- One TWG member seconded this stance that return shouldn't be a/the determining criterion, asserting that the member prioritizes the impact to society (double-materiality) rather than single materiality
- The Secretariat noted that investments are classified as downstream because the cash provided to investees reflects a service to investees

Mutual funds:

- The Secretariat inquired whether fund managers should be required to include their emissions or whether it should remain optional to fund managers
- One TWG member asserted that fund managers should be required to include category 15 emissions to facilitate comparability and to reduce ambiguity
- The Secretariat said that this would be consistent with PCAF requirements for financial institutions
- The Secretariat inquired whether this requirement should be specified for third-party managers, i.e., for any firm that manages client funds (e.g., hedge funds, mutual funds, private equity funds)
- One TWG member asserted that disclosure should be required for all third-party managers
- Another TWG member seconded this opinion

Outcomes

- Non-outcome: The discussion on pension funds, CC&E, endowment funds, and mutual funds will be continued in the next meeting
- Secretariat to point to sections of *Discussion Paper C.1* for TWG members to review

6. Time planning and next steps

- Refer to Presentation slides 40-46
- The Secretariat provided that the meeting time for Meeting C.4 or Meeting C.5 may be changed to a later time, and that the Secretariat would follow up with members

Discussion

- N/A

Outcomes

- Secretariat to follow up (i.e., confirm) whether the Meeting C.4 or C.5 (in January or February, respectively) will be changed to a different time

Summary of written submissions received prior to meeting

The following notes reflect the opinion of one TWG member ("Member"):

- Issue 1 (applicability):

- TWG Member preferred Option 2 (i.e., to give non-FI SMEs optionality in accounting for and reporting category 15 emissions), while pointing out that it may be hard to set the threshold
- Issue 2.5 (consolidation approaches):
    - TWG Member preferred Option 2 (i.e., to *not* permit FIs to use the equity share approach) and provided the following rationale:
        - Having FIs mixing financed emissions across Scope 1 & 2 (equity) and cat 15 (all other) is confusing and not transparent
        - Equity investments may be extremely small (0.0001%) for large portfolios, and it makes no sense to include them in a FI's scope 1 and scope 2 inventories
- Issue 2.6 (data quality scoring for category 15):
    - TWG Member preferred Option 2 (i.e., GHG Protocol to adopt PCAF's scoring method for both FIs and non-FIs) but stated that option 1 (i.e., GHG Protocol to not adopt PCAF's data quality scoring method) is fine and provided the following rationale:
        - In practice, it will be impossible for FIs to check their DQS in such amount of detail to correct for misclassified data quality scores; and FIs would likely push back if they are required to further investigate 3rd party data that is already coming from the investee and is audited
    - Issue 3 (other investment/asset types):
        - TWG Member asserted that, for all investment/asset types, it is crucial to differentiate between companies and FIs
            - Pension Funds:
                - TWG Member is ambiguous about including payments made by companies to pension funds
            - Cash and cash equivalents:
                - TWG Member is ambiguous about including CC&E. This asset type needs a detailed study and discussion, as it could have huge consequences
            - Donor/Endowment:
                - N/A
            - Mutual Funds:
                - TWG Member is ambiguous on asset managers; although there appears to be consensus among market players that mutual funds can and should account for category 15 of managed investments
            - Sovereign debt:
                - Require for FIs
            - Green bonds:
                - Require for FIs
            - Derivates:
                - TWG Member welcomes a recommendation of the GHGP whether this should be a requirement
                - There is market demand for methodological guidance
            - Insurance underwriting:
                - Should be required for insurance companies
            - Insurance Claims:
                - TWG Member welcomes a recommendation of the GHGP whether this should be a requirement.
                - There is market demand for methodological guidance
            - Crypto/Blockchain:
                - TWG Member welcomes a recommendation of the GHGP whether this should be a requirement
                - There is no market demand for this