Scope 3 TWG
Group C
Meeting Minutes

Meeting 4
Date: January 23, 2025
Time: 09:00 – 11:00 AM ET
Location: Virtual

Attendees

Technical Working Group Members

1. Karis Choi, HSBC
2. Alexandre Kelemen, Mangue Tech
3. Shannon McIlhone, Partnership for Carbon Accounting Financials (PCAF)
4. Nadia Montoto, KPMG
5. Hetal Patel, Phoenix Group
6. Colin Powell, PwC
7. James Salo, S&P Global Sustainable1
8. Fabiola Isabel Schneider, University College Dublin
9. Howard Shih, Science Based Targets initiative
10. Enric Tarrats, Banc Sabadell
11. 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.4 - Presentation – 20250123 (“Presentation”)

Summary

Item	Topic and Summary	Outcomes
1	**Agenda, housekeeping, decision-making criteria** The Secretariat presented the meeting agenda, housekeeping rules, and decision-making criteria.	• N/A
2	**Recap of previous issues** The Secretariat presented previous issue 3a. Identification and classification (and required vs. optional) and outcomes from the indicative polling.	• N/A
3	**Issue 4a: Optionality** The Secretariat presented the issue of optionality, showcasing a potential (re)organization of investment types listed in table 5.9 and 5.10 into three tables A, B, and C, itemizing investment types as financed, facilitated, and insurance-associated. Indicative polling was held.	• N/A
4	**Issue 4b: Disaggregated reporting** The Secretariat presented PCAF guidance on facilitated and insurance-associated emissions and provided a comparison of aggregated vs. disaggregated reporting. Indicative polling was held.	• N/A
5	**Time planning and next steps** The Secretariat discussed meeting times and next steps. The Secretariat highlighted the alternative meeting time of 6-8am EST for the next meeting, to benefit members in APAC time zones.	• Secretariat to distribute the link to the meeting recording by January 24th • Secretariat to distribute the meeting minutes and a feedback form by Thursday, January 30th

Discussion and outcomes

1. Agenda, housekeeping, decision-making criteria, scope of work

- Refer to Presentation slides 2-12
- The Secretariat presented the meeting agenda, housekeeping rules, decision-making criteria, and scope of work

Discussion
- N/A

Outcomes
- N/A

2. Recap of previous issues

- Refer to Presentation slides 13-17
- The Secretariat presented the status of previous issues:
    - Summary of the meeting C.3 on investments identification and classification
    - Implications of indicative polling on requirement or optionality of different investment types

Discussion
- N/A

Outcomes
- N/A

GREENHOUSE GAS PROTOCOL

WORLD RESOURCES INSTITUTE

WBCSD World Business Council for Sustainable Development

3. Issue 4a: Optionality

- Refer to Presentation slides 18-29
- The Secretariat presented classifications in the context of required/optional activities, including a potential (re)organization of investment types in the *Scope 3 Standard*
- The Secretariat presented a table showing the potential (re)organization, based on the interim polls from meeting C.3 and engaged the TWG members in a live Miro board exercise, to review the Secretariat's proposal

Discussion

- One TWG member asked if the group will be defining what constitutes a financial institution (FI), stressing that this is an important question to resolve if requirements are differentiated for FIs vs. non-FIs. The member mentioned the SBTi classification of FIs, which is linked to a percentage threshold of revenue earned from financial investment activities
    - One TWG member provided the PCAF distinction between FIs vs non-FIs. PCAF defines as FI as "A company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions encompass a broad range of business operations within the financial services sector, including commercial banks, investment banks, development banks, asset owners/managers (mutual funds, pension funds, close-end funds, investment trusts), and insurance companies."
    - One TWG member agreed that there should be a standard for this designation
    - One TWG member agreed saying that they had seen language on this distinction, connected to the predominant activity type that an organization engages in
    - One TWG member provided the SBTi definition, stating that SBTi defines a financial institution as an entity that generates 5% or more of its revenue from investment, lending, or insurance activities. This includes but is not limited to banks, asset managers and private equity firms, asset owners and insurance companies, and mortgage real estate investment trusts (REITs)
- One TWG member asked about the latest TWG member survey, if a distinction was made between FIs vs non-FIs
    - The Secretariat clarified that such a distinction was not made, and encouraged TWG members to speak up if they think that any investment type should only be required for FIs
- One TWG member commented that they generally agree with the proposed structure moving away from splitting the investment types into required/optional and splitting them by the type of investment instead (into three types aligning with the PCAF classification). The member voiced concern regarding the name "insurance-associated emissions", stating that this veers into industry specificity. They asked if another term could be used
    - One TWG member agreed with this concern, specifically as regards derivatives
    - The Secretariat responded that for PCAF, insurance-associated relates to a very specific, narrowly defined activity, and proposed that the term insurance-related could be used instead
    - A TWG member agreed with this suggestion
    - A TWG member commented that PCAF chose this phrasing after in-depth conversation on the topic, stating that certain insurers felt that the term insured emissions implies that they are insuring emissions, which they claimed to not be doing. Insurers claimed that this could imply litigation risks, which is why the term insurance-associated emissions was agreed upon
    - The Secretariat asked if the insurer should account for the associated emissions, if that insurer makes the insured business possible in the first place, similarly to investors that make it possible for business to operate
    - One TWG member commented that this association makes sense in principle, but voiced their concern about stipulating reporting provisions for parties that do not have control over the deployment of the money
    - The Secretariat asked if splitting into tables A, B, and C is exhaustive, given that there could potentially be tables E, F in the future, and if table C could be called 'other' instead, as a simpler approach

- One TWG member stated that control should not be the decisive factor, and that not having control should not be a reason to not report. Preparers have control over the decision of what to do with their money, e.g. what asset manager to use, and what derivatives to buy
    - One TWG member commented that that is a reasonable analysis
    - The Secretariat brought up the case of cash deposits, where the depositors have no control over how the bank lends the money, but does have a choice in which bank to use. Some climate focused banks might not be insured by the Federal Deposit Insurance Corporation (FDIC), or be limited in their operations due to their level of capital
    - One TWG member agreed, that the problem lies with information transparency, and whether the deciding entity has access to the right information. The member stated that the feasibility angle is more important than the control angle, especially in light of the voluntary nature of the GHG Protocol
    - The Secretariat reminded the TWG members that the Corporate Standard TWG had unanimous consensus that scope 3 reporting should be required, and asked whether that changes the TWG member's assessment
    - The TWG member clarified that they were speaking about the voluntary nature of the GHG Protocol in general, that it is not mandatory to disclose using the GHG Protocol
- One TWG member agreed with the point on control, but raised the issue of double counting of insurance-associated emissions
    - One TWG member replied that double counting occurs all the time, and that it is not a reason to not report
    - The Secretariat reminded the members that minimum boundaries would be discussed in the next meeting of subgroup C, and stated that financed emissions of an investee would not include insurance-related emissions, but also cautioned that this could create loopholes
    - One TWG member stressed that the most important issue within the insurance sector are the emissions from insured projects, i.e. lack of accountability when insurance is enabling high emitting projects, and stated that this is where the real impact lies
    - The Secretariat asked if the member believes that emissions that are being made possible through insurance should be reported
    - The TWG member confirmed, and stated that it should be a 'shall' in the Standard's language
- The Secretariat asked the TWG members whether insurance-related emissions (apart from claims payments which could remain optional) could be required, if all insurers are FIs
    - One TWG member noted that the footprint from claims payments is large, and that claims payments present insurers with the biggest leverage to cause change
    - One TWG member agreed that claims payments should be kept required
    - One TWG member stated that insurance-associated emissions and claims payments should both be required
    - One TWG member agreed, stating that keeping them required is in line with the decision-making criteria
- The Secretariat asked the TWG members for their opinions on guarantees, whether it is necessary to list them in the tables, and if they should remain optional. The Secretariat also asked whether TWG members see listing an investment type as required without providing a calculation method as problematic, and whether the Secretariat should propose a calculation method for guarantees
    - One TWG member commented that PCAF requires anything that has a calculation methodology, for example insurance-associated emissions that have a calculation methodology are required
    - One TWG member agreed with this approach, stating that the GHG Protocol risks creating confusion if it were to require an investment type without providing a calculation method. The member also made the point to be careful with the wording in light of harmonizing with PCAF in the future as PCAF releases more guidance
- The Secretariat asked the TWG members for their opinions on donations
    - The Secretariat suggested that a difference between donations and investments is the profit-seeking orientation, as donations are not a profit-seeking activities by donors
    - One TWG member agreed with that separation and asked whether there is an ethical issue with classifying donations as required. As the GHG Protocol should not discourage potential donors from donating due to emission reporting implications

    - One TWG member agreed, stating that it is difficult to require donations without providing a methodology
    - One TWG member agreed in principle, but stated that financially, donations are not very different from investments. Donations facilitate emissions, as do other financial activities, with the difference that the donor does not generate profit
    - One TWG member stated that the main issue is the methodology, and that taking into account the decision-making criteria, requiring accounting for donations without a methodology is not feasible
    - The Secretariat raised a point of view that donations may cover a lot of different activities, and that unintended consequences should be avoided. The Secretariat further asked whether donations should be separated from sponsorships
    - One TWG member commented that requiring emissions reporting for donations to NGOs could create negative impact, which does not hold for requiring reporting for, for example, sponsoring the Olympic games
    - One TWG member stated that the distinction between donations and sponsorship ties back to the profit/benefit motive, saying that sponsorships result in benefits to the sponsor. The member also raised that investors retain ownership over their investments and exit (sell) their investments, while donations cannot be reversed, and that donors separate themselves from those assets, citing this as an argument against required disclosure of donations.
    - The Secretariat asked how a donor would know whether their donation increased or decreased emissions, and whether requiring donations would create pressure for transparency in the market, and encourage NGOs to support decarbonization
    - One TWG member replied that it may, but it could also result in an ethical hazard in discouraging money giving for charitable causes
    - One TWG member raised the distinction between for-profit and not-for-profit entities, and that the goal is to not deter donations to not-for-profit entities
    - The Secretariat countered that there are many not-for-profits that do not fight climate change but that do benefit society. The Secretariat further raised that NGOs already have to report financial spendings of donations publicly, and that this precedent could be applied to emissions
    - One TWG member agreed with this point
    - One TWG member agreed, saying that both loans and donations to NGOs generate emissions
    - The Secretariat asked the TWG members if donations shall remain optional until a calculation method is developed. No TWG members objected
- The Secretariat asked the TWG members if compensation payments shall be required absent a calculation method
    - One TWG member stressed that from an impact perspective this decision has the potential to create significant change, and that they have heard from many stakeholders that compensation payments should be required
    - One TWG member agreed that the lever for change is a main driver although the lack of a calculation method is a challenge. The TWG member expressed their preference for weighting higher the lever for change argument in considering requiring disclosure
    - One TWG member disagreed, stating that compensation payments should be optional, as they may presents a distraction to preparers, having to focus on employee investments instead of other activities with potentially more relevant emissions.
    - One TWG member stated that this decision depends on what kind of pension structure a preparer offers, citing differences in control between 401k contributions and large corporate pension plans
    - One TWG member highlighted sectoral differences in this regard, that while compensation payments might not be a big factor for oil & gas companies, they may be for tech companies, and that they should be required for companies where they do make up a large share of emissions
    - One TWG member questioned whether this is leading to real world decarbonization
    - One TWG member replied that if pension funds were to shift their investments, then yes

    - The Secretariat raised an opinion voiced in literature that activities other than debt reflect "noise", and that debt holders and debt use for funding low- or high-carbon projects should be the focus
    - One TWG member agreed with that assessment, citing a recent paper
    - The Secretariat summarized that no consensus seemed to emerge on pension plans as of yet
- The Secretariat asked TWG members for their opinions on table A
    - No TWG members volunteered opinions
    - The Secretariat asked TWG members to confirm if financed emissions should be required
    - Many TWG members indicated their support

Outcomes (from Issue 4a. Optionality)

- The Secretariat ran two indicative polls on pension funds
    - "Should pension funds be required to report managed investments (like endowment funds, insurance funds, and third-party managers with discretionary control)?
        - 7 - Yes (required)
        - 3 - No (optional)
        - 0 – Abstain
    - "If yes, should investments managed by pension funds be classified under "managed investments and client services" rather than "other investment and financial services"?
        - 8 – managed investments and client services
        - 0 – other investment and financial services
        - 0 – other
        - 1 – abstain
- The Secretariat ran an indicative poll on non-financial institutions
    - "Should optionality be the same for FIs and non-FIs, or different?"
        - 5 – Same for both FIs and non-FIs
        - 3 – Different for FIs and non-FIs
        - 1 – Abstain
- Poll results are indicative and do *not* reflect final recommended revisions to the *Scope 3 Standard*
- Poll results will be used to support further consideration and discussion in future meetings

4. Issue 4b: Disaggregated reporting

- Refer to Presentation slides 30-35
- The Secretariat presented PCAF guidance on facilitated and insurance-associated emissions, and a calculation example of aggregated vs. disaggregated reporting. Five options of potential reporting of category 15 were presented:
    - Option 1 – disaggregation by investment type (specific)
    - Option 2 – no disaggregation (as one category 15 sub-total)
    - Option 3 – binary sub-totals: disaggregation by required and optional (table 5.9 and 5.10)
    - Option 4 – trinary sub-totals: disaggregation by financed, facilitated, insurance-associated
    - Option 5 – disaggregation by existing line-items within table 5.9 and 5.10

Discussion

- The Secretariat stated that differentiated reporting is already a reality for non-FIs, and asked what level of detail is necessary to provide comprehensive, actionable information
- One TWG member stated that granularity of option 4 in the indicative poll would be needed for anyone, while option 2 is not helpful. They said that from a feasibility point of view, it should be easy enough to split up for the preparer
- One TWG member agreed, stating that all the options should be considered and that all are feasible. The member favored a granular level of detail for clarity purposes, as that helps usability
- The Secretariat asked if the TWG members see a feasibility challenge for non-FIs
    - One TWG member replied saying that they do not, as non-FIs would not have to report many of these types

Outcomes (from Issue 4.b Disaggregated reporting)

- The Secretariat ran an indicative poll on disaggregated reporting
    - "How should reporting companies be required to ("shall") report category 15 emissions?"

- 5 – Option 1 – investment type (specific)
- 0 – Option 2 – category 15 sub-total
- 0 – Option 3 – binary sub-totals (table 5.9 and 5.10)
- 3 – Option 4 – trinary sub-totals (financed, facilitated, insurance-associated)
- 0 – Option 5 – existing line-items within table 5.9 and 5.10
- 0 – Other
- 1 – Abstain

- Poll results are indicative and do *not* reflect final recommended revisions to the *Scope 3 Standard*
- Poll results will be used to support further consideration and discussion in future meetings

6. Time planning and next steps

- Refer to Presentation slides 36-40
- The Secretariat reminded TWG members of the alternative meeting time of 6-8am EST for the next meeting, to benefit members in APAC time zones

Discussion

- N/A

Outcomes

- N/A

Summary of written submissions received prior to meeting

- One TWG member provided their responses to the indicative polls included in the meeting slides as a written submission
    - "Should required vs. optional be specified by (a) financed, facilitated, or insurance-associated or (b) investment type (irrespective of tables) rather than the current binary structure (in Table 5.9 and Table 5.10)?"
        - B – Financed, facilitated, or insurance-associated (three tables)
    - "Should debt (without known use of proceeds) (currently Table 5.10) be required (not optional)?"
        - Yes, move to new Table A (financed)
    - "Should pension funds be required to report managed investments (like endowment funds, insurance funds, and third-party managers with discretionary control)?"
        - Yes (required)
    - "If yes, should investments managed by pension funds be classified under "Managed investments and client services" rather than "Other investment and financial services"?"
        - Yes
    - "Should Managed investments (a) exclusively account for managed financed emissions, (b) be required, and/or (c) be moved to Table 5.9?"
        - Abstain
    - "Should "Managed investment and clients services" be split into to managed investments (financed) and client services (facilitated)?"
        - Yes
    - "And/or should Table 5.10 be split into two parts for (a) investment services that *facilitate* investments (financed emissions) vs. other activities *associated with insurance* (including derivatives and guarantees)?'
        - Abstain
    - "Is the distinction between "client services" and "financial services" in Table 5.10 clear? If not, should these terms be changed?"
        - Unclear, should be changed
    - "Does the potential (re)organization into three tables resolve this potential ambiguity?"
        - Abstain

- "Given that cash deposits are not "investments" made nor "client services" provided by a depositor – is it appropriate to account for emissions associated with a bank's use of said deposits in category 15 (by a depositor)?"
  - No
- "Given that derivatives do not finance emissions in the real (physical) economy, is it appropriate to account for derivative emissions in the same line-item as pension fund investments (financed emissions)?"
  - Abstain
- "Should optionality be the same for FIs and non-FIs or different?"
  - The same
- "If different, how should differentiated optionality be specified?"
  - Not applicable
- "Should reporting companies be required to ("shall") report category 15 in the form of a (a) sub-total (aggregate category 15) or (b) specific disaggregation approach (to be reviewed)?"
  - Specific disaggregation approach (to be reviewed)
- "How should reporting companies be required to ("shall") report category 15 emissions?"
  - Trinary sub-totals (financed, facilitated, insurance-associated)