Scope 3 TWG
Group C
Meeting Minutes

Meeting 5
Date: February 13, 2025
Time: 06:00 – 8:00 AM ET
Location: Virtual

Attendees

Technical Working Group Members

1. Maisie Auld, Arcadis
2. Karis Choi, HSBC
3. Elijah Innes-Wimsatt, Conservation International
4. Alexandre Kelemen, Mangue Tech
5. Megan Kennedy, General Motors
6. Nadia Montoto, KPMG
7. Caspar Noach, Partnership for Carbon Accounting Financials (PCAF)
8. Hetal Patel, Phoenix Group
9. Kristian Ronn, Normative
10. James Salo, S&P Global Sustainable1
11. Fabiola Isabel Schneider, University College Dublin
12. Howard Shih, Science Based Targets initiative
13. Enric Tarrats, Banc Sabadell
14. Junfeng Zhao, GSG

Guests

N/A

GHG Protocol Secretariat

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

Documents referenced

1. Discussion Paper C.1 - Investments - Version 2.0
2. Scope 3 - Group C - Meeting C.5 - Presentation – 20250213 ("Presentation")

Summary

Item	Topic and Summary	Outcomes
1	**Housekeeping and decision-making criteria** The Secretariat presented the meeting agenda, housekeeping rules, and decision-making criteria.	• N/A
2	**Scope of work and recap of previous issues** The Secretariat presented the scope of work and a recap of meetings C.1-C.4 and classification (issue 4a) and disaggregated reporting (issue 4b) in particular.	• N/A
3	**Issue 5a: Proportionality** The Secretariat presented the concept of proportionality as currently defined in the *Scope 3 Standard* and a discussion was held on whether equity proportionality should be calculated like debt and/or project finance, and if the relevant formulas in the *Scope 3 Technical Guidance* should be revised. Indicative polling was held.	• Secretariat to follow up with a form on differentiation between FIs and non-FIs • This topic will be followed up on, as needed, when calculation methods will be discussed in later meetings
4	**Issue 5b: Relevant scope 3 emissions of investees or projects** The Secretariat presented current and implied minimum boundaries in the *Scope 3 Standard* and reviewed consistency between the *Scope 3 Standard* and PCAF's standards. Indicative polling was held.	• N/A
5	**Time planning and next steps** The Secretariat discussed meeting times and next steps.	• Secretariat to distribute the link to the meeting recording by February 14th • Secretariat to distribute the meeting minutes and a feedback form by Thursday, February 20th

Discussion and outcomes

1. Housekeeping and decision-making criteria

- Refer to Presentation slides 3-8
- The Secretariat presented the meeting agenda, housekeeping rules and decision-making criteria

Discussion
- N/A

Outcomes
- N/A

2. Scope of work and recap of previous issues

- Refer to Presentation slides 9-13
- The Secretariat presented the status of previous issues:
  - Summary of meetings C.1 – C.4
  - Review of indicative classification and optionality (Issue 4a) and disaggregated reporting (Issue 4b)

Discussion
- N/A

Outcomes

- N/A

3. Issue 5a: Proportionality

- Refer to Presentation slides 14-18
- The Secretariat presented existing language providing additional guidance on key concepts italicized in table 5.9 concerning, specifically, proportionality from p. 54 of the *Scope 3 Standard*
- The Secretariat inquired whether equity proportionality be calculated like debt or project finance (i.e., as a % of equity and debt)
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Discussion

- One TWG member asked whether the denominator can or should be different for financial institutions (FIs) versus non-FIs (or "other corporates"), explaining that financial institutions treat equity and debt equally
- The Secretariat asked whether it would benefit public stakeholders if companies accounted for emissions of their equity stake including debt in the denominator, with the implication being that an equity holder's proportionate emissions would, in many if not most cases, *decrease*
- One TWG member proposed that for corporates that don't use debt and only focus on equity, but asked whether this would or could apply to project finance by non-FIs
- The Secretariat asked whether or what necessitates the inclusion of debt in the denominator for FIs and separately whether FIs versus non-FIs can be consistently distinguished
- For PCAF, the purpose is for FI's emissions to add up to 100% (i.e., to limit the double counting of emissions within the GHG inventory of an FI)
- The Secretariat reiterated that the implication of requiring debt in the denominator for non-FI (corporate) equity holders is that said reporting non-FIs category 15 emissions would likely decrease significantly
- The Secretariat provided an example of commercial real estate properties which commonly utilize debt for 70% of original total project cost, meaning that an equity holder that currently is required to report 100% of the emissions associated with an owned CRE property would report 70% less emissions (and would slowly increase if and as the debt principal is paid off)
- The Secretariat directed TWG members to consider the decision-making criteria, pointing to completeness and actionability in particular
- One TWG member reiterated that including only equity in the denominator would significantly change the reported emissions by FIs, and asked the Secretariat to clarify the scope of this consideration for FIs vs. non-FIs
- One TWG member asked, concerning the 70/30 debt/equity example for commercial real estate, whether we're shifting the responsibility of emissions if debt added
- The Secretariat clarified that, in the case of a sole equity holder and owner of a building whose equity is worth 30% of original total project cost, relying on debt for the remaining 70% of project cost, then currently they are required to report 100% of emissions (using only equity in the denominator), but if this equity holder (owner) includes debt in the denominator, then they would report 30% of emissions
- The Secretariat asked whether it should be differentiated for FIs versus non-FIs
- One TWG member asked whether there are other implications for other types of businesses, apart from real estate
- The Secretariat explained that many companies are similarly levered, with a few industries exhibiting debt/equity ratios exceeding 1.0 (i.e., have more debt compared to equity), meaning that including debt in the denominator of shareholders would decrease the reported emissions of shareholders (equity holders)
- One TWG member stated that the debt provider is also providing the capital that makes it possible for business activity to take place, however, a reducing of shifting emissions could present issues, and pointed to the potential need to have different requirements for FIs versus non-FIs
- The Secretariat asked whether they foresee any issue with the scope 3 category 15 emissions inventories of FIs vs. non-FIs being different, in a sense, operating on different 'scales'
- One TWG member said that this could be problematic

- Another TWG member said that it might make sense to have a different approach, explaining that FIs are supporting a party, but everyone's emissions should be trending to zero, for example, a debt provider (or another financial institution) will eventually leave the business activity when the debt is paid off, unlike the counter-party (in this case the equity holder or borrower) retains their equity and eventually report 100% of emissions (when debt becomes zero)
- The Secretariat asked whether the argument that an equity holder is most often the project sponsor (equity sponsor, principal investor, lead developer, etc.) that precedes debt, and thus has a different level of agency, responsibility, influence, and/or control than a lender of the project, is a reason for equity holders reporting 100% of the emissions of an investment or project
- One TWG members asked for clarity on whether there is or not an inconsistency in the current guidance by treating equity and debt differently (i.e., using only equity in the denominator foe equity holders and including both equity and debt in the denominator for debt holders), and whether this inconsistency should be kept in place
- The Secretariat asked whether many FIs or non-FIs that, as investors, invest in both equity and debt of the *same* project (e.g., an investor buys equity and debt in the same company)
- Several TWG members stated that in some cases FIs do participate with both equity and debt in the same company
- One TWG member asked whether the reduction that would occur for equity holders would a non-real reduction resulting from proportionality dilution, for example, if a company issues significantly more debt, then the emissions of all shareholders would decrease (if equity and debt is included in the denominator)
- One TWG member responded that it could fluctuate, explaining that this could also happen if the share price of a company increases such that the value equity relative to debt increases, then the emissions of equity holders would go up
- This same TWG member explained that PCAF is currently working on methods to correct for this type of fluctuation, but either way, in the financial world, the value of equity increases and decreases, and this would and does effect the denominator
- The Secretariat asked whether the 're-scaling' of the financed emissions of equity holders — which would be necessary if debt is included in the denominator — would be difficult for non-FIs to perform and thus negatively affect feasibility
- One TWG member stated that this is the strongest argument against including debt in the denominator for equity holders if it presents feasibility challenges
- One TWG member answered that counterparties are already calculating and reporting scope 3 category 15 emissions and theoretically this data should be available on the balance sheet of counterparties
- This TWG member also said that, for most companies, this figure will remain quite stable, however, for some SMEs, including debt in the denominator could make it more challenging to explain and keep track of the emissions evolution
- The Secretariat asked whether providing the market with scope 3 category 15 financed emissions inventories on two 'scales' for FIs *and* non-FIs, i.e., if FIs *and* non-FIs report different emissions for the same equity investments — which could happen if debt is *not* included in the denominator for equity holders (i.e., if current GHG Protocol guidance is maintained), given that many if not most FIs use PCAF and therefore do include debt in the denominator — whether this negatively impacts or hampers programs or decision-making that drives ambitious global climate action, and/or relevance
- One TWG member believes that it makes sense to use the same denominator as PCAF, stating that many non-FIs use PCAF guidance, i.e., they include debt in the denominator, and it would be less confusing for both FIs and non-FIs to have the same proportionality (denominator) rule
- The Secretariat recognized that for any equity holder not using debt in the denominator, such an equity holder would need to recalculate their financed emissions

<u>Outcomes (from Issue 5a. Proportionality)</u>

- The Secretariat conducted indicative polling on the following questions:
  - "Should equity proportionality be calculated like debt and/or project finance (i.e., as a % of equity and debt in the denominator?"
    - Yes – 50% (7/14)
    - No – 14% (2/14)
    - Other – 7% (1/14)
    - Abstain – 29% (4/14)

  - "If yes, should the formulas in the Scope 3 Technical Guidance be revised to read "…share of equity and debt (%)" instead of simply "… share of equity (%)"?
    - Yes – 53% (7/13)
    - No – 0% (0/13)
    - Other – 16% (2/13)
    - Abstain – 31% (4/13)
- The Secretariat clarified that the *Scope 3 Standard* does not explicitly distinguish guidance for FIs vs. non-FIs and therefore if a codified distinction is necessary to consider revising the requirement that equity holders include only equity in the denominator, then TWG members should vote "Other" in the poll and/or please speak up
- The Secretariat asked whether the one TWG member who voted "Other" was willing to share their view on this issue
- Said TWG member voiced their opinion that regarding FIs versus non-FIs, some publicly traded organizations could run into feasibility or capacity challenges, and that this could have significant implications for shareholders
- The Secretariat will follow up via a form whether proportionality guidance for FIs and non-FIs needs to be differentiated

5. Issue 5b: Relevant scope 3 emissions of investees or projects

- Refer to Presentation slides 19-30
- The Secretariat presented current minimum boundary guidance from GHG Protocol and PCAF
  - GHG Protocol states that investors should include the scope 3 emissions of investees "where relevant"
  - PCAF stipulates different requirements, for example, that the scope 3 emissions of business loans should be included
- The Secretariat explained that the GHG Protocol states that a reporting company should include the scope 3 emissions of investees "where relevant"
- As such, the high-level consideration of this section is: whether the "where relevant" language should be removed or revised to be more pointed or prescriptive
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Discussion

Financed emissions:

- One TWG member clarified that the scope 3 emissions of all sectors will eventually be required (prescriptively) and cease using "where relevant" language to mitigate the risk of non-disclosure by some sectors
- The same TWG member asserted that, for example, for commercial real estate, mortgages, or motor vehicle loans, PCAF relied on the GHG Protocol's "where relevant" guidance to stipulate the scope 3 emissions of said asset types is optional
- The same TWG member cited the example of the scope 1 and scope 2 emissions of vehicles accounting for the larger fraction of the lifetime emissions of a financed vehicle (investee or ass), or the scope 1 and scope 2 emissions of a home accounting for the larger fraction of lifetime emissions, as the reasoning behind this minimum boundary specification
- The Secretariat pointed out that the cradle-to-gate emissions associated with manufacturing an internal-combustion engine (ICE) vehicle versus an electric vehicle (EV) is much lower in some cases, and comparing the scope 1 and scope 2 emissions of an ICE vehicle versus an EV vehicle might result in misleading conclusions about GHG-intensity and/or be incomparable
- The Secretariat asked whether investors should be required to include the scope 3 emissions of investees (or of an investment or an asset type) in the case of equity, debt (with known use of proceeds), and project finance (i.e., investment types currently detailed in Table 5.9 of the *Scope 3 Standard*)
- The Secretariat further inquired whether requiring the disclosure of the scope 3 emissions of investments in multiple projects or businesses that all operate in the *same* value chain (e.g., engine manufacturer, car manufacturer, and an oil and gas company) would create problems, while noting that the *Scope 3 Standard* was intentionally designed to double (or multi) count emissions. The

Secretariat clarified that the *Scope 3 Standard* does state that the scope 3 categories are designed to be mutually exclusive and that a company should choose which category to report the activity in so that there is no double counting between categories within a reporting company's scope 3 GHG inventory

- One TWG member responded by explaining that some automotive manufacturers also provide financing options to customers or buyers of said vehicles, and in such cases including the scope 3 (tail pipe) emissions does result in potential double counting *within* a company's scope 3 inventory
- One TWG member stated that including the scope 3 emissions of investees, it seems, was originally established to ensure that initial funders of, for example, O&G projects accounted for the lifetime impact of their investment, which would be significant, and not simply the scope 1 and scope 2 emissions in the year that the O&G project is built
- The Secretariat asked whether the issue of double counting emissions within a scope 3 GHG inventory is separate from the issue of double counting emissions within a portfolio of investments
- One TWG member explained that PCAF focuses on *separately* reporting the emissions of various assets and determining the emissions increases or decreases of these assets rather than attempting to aggregate financed emissions
- The Secretariat clarified that if the *Scope 3 Standard* were to require that an investor include and report the scope 3 emissions of investees and an investor determines potential double counting of value chain partners' emissions within the investors scope 3 GHG inventory, then they would need to adjust this double counting by choosing the scope 3 category in which to report these emissions mutually exclusively, as per current guidance
- One TWG members asked whether investments in value chain partners would therefore need to be accounted and reported in either category 15 or in category 1 of the reporting company's scope 3 GHG inventory
- The Secretariat stated that yes, based on current guidance, the company should report the emissions either in category 1 or category 15 in order to not double report the emission of said value chain partner, however, the Secretariat acknowledged that this becomes difficult given that most value chain partners have multiple clients and therefore an investment from one client would impact (potentially reduce) the emissions of all sold products and not simply those products purchased by one client
- The TWG member acknowledged this and cautioned whether requiring the scope 3 emissions of investees could backfire and cause confusion in the market and decrease supply chain decarbonization investments
- One TWG member advised the group that PCAF is currently considering a "Use of proceeds" accounting method which allows for situations where an investor knows that the proceeds isn't going towards general corporate finance (which would require accounting for an equivalent share of total corporate emissions) but, rather, towards a specific project (ring-fenced), then investors would be able to use those emissions
- The other TWG member said that this still creates complexity in tracking the final emissions number as either category 1 or category 15, but this doesn't resolve the risk that companies are discouraged from investing in supply chain decarbonization if they face the risk or possibility of double counting
- The Secretariat asked whether this is specific to scope 3 or whether the same would be true of scope 1 or scope 2 emissions
- The TWG member said that it would be the same for other scopes, but the implications are simply larger for scope 3
- The Secretariat said that this appears to be a consideration for the Action and Market Instruments TWG of GHG Protocol update process, but acknowledged the potential overlap with scope 3 category 15 given that many market-based instruments reflect investments in (or the purchase of) specific projects and associated (low-carbon or reduced emissions) performance characteristics
- One TWG member asserted caution regarding "use of proceeds" accounting, in particular, for green bonds because in practice it's very difficult to prove or trace specific use of proceeds (e.g., specific projects) when money is spent on green bonds
- Further, the argument that investments in a value chain partner to reduce said partner's emissions is also difficult to prove or trace given that companies, often in problematic sectors, given that many value chain partners have retained earnings that they then could spend on GHG-intensive activities,

and so investing in such value chain partners (e.g., via green bonds) could effective be freeing up the partner's retained earnings for use on GHG-*intensive* activities
- The Secretariat observed that poll results indicate that most members believe that the inclusion of the scope 3 emissions of equity, debt (with known use of proceeds), and project finance should be required

Facilitated emissions:

- The Secretariat asked whether, generally, TWG members believe that facilitators should include the scope 3 emissions of a facilitated entity, noting that this may differ from guidance provided in PCAF Part B which stipulates that underwriters and/or issuers should account for the scope 3 emissions of facilitated investees
- One TWG member stated that the same rule for financed emissions should be applied for advisors (with non-discretionary advisory control), for example, advisors have a level of influence and therefore should include the scope 3 emissions of investments
- One TWG member stated that consumer and/or trade finance could be considered
- The Secret questioned whether the rule should differ for advisors of projects, given that advisors do not hold equity in the investee/investment, and therefore would or could perhaps only include the scope 3 emissions of an investment/investee in the year that the advisory service was provided
- One TWG member asked whether this rule would apply to *any* advisory service provided to a company, outside of investments (e.g., design services, legal services, consulting services, etc.)
- The Secretariat clarified that this question only concerned investment advisory services but acknowledged the importance of considering the implication for and/or consistency with other service providers, and asked whether this is meaningful disclosure
- One TWG member asked whether including advisory services is meaningful, asserting that the GHG Protocol typically follows physical flows or financial flows, pointing to some stakeholders representing advertising agencies believe that advertise-spend should account for the emissions of sold products being advertised
- The Secretariat presented the distinction between third-party managers with discretionary control over investments or use of funds) while third-party advisors only have non-dictionary advisory control but do not make ultimate investment decisions nor do they execute investments
- One TWG member challenged the control argument and countered that, ultimately, an advisor has control over which clients to advise and how to advise said clients, and recommended including the scope 3 emissions to incentivize a third-party advisor to advise their clients to invest in low-carbon activities
- The Secretariat informed TWG members that a feedback form would be provided to specify minimum boundaries for specific facilitated investment types or activities

Insurance-related emissions:

- The Secretariat asked whether insurance-related emissions will currently, tentatively be reported optionally, and asked whether for companies that report, if the scope 3 emissions of insurance-related activities should be included
- The Secretariat clarified that question 1 on slide 29 concerned insurance-related activities and questions 2, 3, and 4 concerned the "where relevant" language generally and reflect final questions for consideration
- One TWG asked whether including the scope 3 emissions of investees in question 1 referred to the investments of insurers
- The Secretariat clarified that this should read insurance-associated activities
- One TWG asked whether questions 1 concerns the scope 3 emissions of payments made out to claims for insurers
- The Secretariat clarified that yes, question 1 concerns the scope 3 emissions of the use of claims payments
- The Secretariat further asked the TWG members to inform if they believe that questions 1 should be posed for each specific insurance-related activity
- One TWG member whether a magnitude threshold of 5% would be combined with an absolute threshold to determine significance or relevance of activities

- The Secretariat informed that a cumulative 5% magnitude threshold is the current threshold being considered by Group B
- The Secretariat asked whether TWG members sees potential conformance discrepancies with PCAF Part C, insurance-associated emissions
- One TWG member said that PCAF Part C was written to conform to the GHG Protocol *Scope 3 Standard* but believed that if the GHG Protocol requires the scope 3 of insurance-related activities that this could strengthen PCAF's guidance
- The Secretariat clarified that currently most TWG members believe that insurance-related emissions should remain optional
- The TWG member stated that insurers should be required to report the scope 3 emissions of their insurance-associated activities given that this reflects a significant fraction of an insurer's emissions (e.g., claims) where the influence of insurers is significant, and therefore it should be required and not optional
- The Secretariat noted that every TWG member had participated in the poll

Relevant projects and sector-specific requirements:

- The Secretariat presented language from the *Scope 3 Standard* regarding relevant projects and sector-specific requirements (p. 54)
- The Secretariat asked whether it's possible to define high-emitting sectors or is it necessary, and does anyone see a challenge defining a relevant project as being in a high-emitting sector, and is there a normative scale for this definition
- One TWG member said that while it could be done, however, reporting companies in different markets use different sector or industry classification methods and this presents a consistency challenge
- One TWG member agreed that sector-specific requirements are difficult because many companies could or would cherry pick which industry they belong to or use to determine relevance, which negatively impact consistency
- The Secretariat noted that some industry or sector classification systems are paywalled and this presents challenges choosing a or the industry classification system to use
- One TWG member asked whether industry classification meets the end goal, stating that the goal is to shift capital to low-carbon activities across all sectors agnostically, not exclusively in GHG-intensive sectors
- One TWG member said that PCAF currently includes a requirement to report either on an asset-specific level or sector-specific level (or both) and not lump-sum
- Further, this TWG member cautioned that in some markets or jurisdictions, the industry classification of companies is sensitive information that companies or stakeholders do not want to disclose, which presents a feasibility challenge if industry-specific requirements are stipulated by GHG Protocol
- The Secretariat clarified that whether industries are distinguished or not, this is not to say that the emissions shouldn't be accounted, and sector-specific requirements may no longer be necessary to define relevant projects if optionality is removed and the inclusion of project financing is required
- The Secretariat inquired whether companies operating, specifically, in the energy sector (e.g., oil and gas, refineries, utilities, etc.) should have more prescriptive and extensive disclosure requirements (e.g., always disclose the emissions of O&G projects under any and all circumstances) similar to the way bank have more extensive disclosure and reporting requirements due to their role in the financial system and the potential risks they pose to economies and consumers
- No TWG members responded to this question nor provided feedback

<u>Outcomes (from Issue 5b. Relevant scope 3 emissions of investees or projects)</u>

- The Secretariat conducted indicative polling on the following questions:
    - "Should equity and debt (known use of proceeds) require the scope 3 emissions of investees?"
        - Yes – 69% (9/13)
        - No – 31% (4/13)
        - Other – 0% (0/13)
        - Abstain – 0% (0/13)

- "Should debt (unknown use of proceeds) require the scope 3 emissions of investees?"
    - Yes – 62% (8/13)
    - No – 38% (5/13)
    - Other – 0% (0/13)
    - Abstain – 0% (0/13)
- "Should project finance maintain the requirement (using "should" language) to include project lifetime emissions "… if the reporting company is an initial sponsor or lender…"?
    - Yes – 73% (8/11)
    - No – 9% (1/11)
    - Other – 0% (0/11)
    - Abstain – 18% (2/11)
- "Should facilitators include the scope 3 emissions of investees?"
    - Yes – 75% (9/12)
    - No – 17% (2/12)
    - Other – 0% (0/12)
    - Abstain – 8% (1/12)
- "Should this minimum boundary be differentiated by activity/instrument type?"
    - Yes – 25% (3/12)
    - No – 42% (5/12)
    - Other – 0% (0/12)
    - Abstain – 33% (4/12)
- Should insurers or other parties of insurance products include the scope 3 emissions of investees?"
    - Yes – 58% (7/12)
    - No – 17% (2/12)
    - Other – 0% (0/12)
    - Abstain – 25% (3/12)
- "Should the current approach be maintained?"
    - Yes – 25% (3/12)
    - No – 25% (3/12)
    - Other – 0% (0/12)
    - Abstain – 50% (6/12)
- "Does "where relevant" language (regarding scope 3 emissions of investees need to be changed?"
    - Yes – 55% (6/11)
    - No – 18% (2/11)
    - Other – 0% (0/11)
    - Abstain – 27% (3/11)
- "Could "where relevant" language be removed if and only if a magnitude threshold is introduced?"
    - Yes – 64% (7/11)
    - No – 0% (0/11)
    - Other – 0% (0/11)
    - Abstain – 36% (4/11)
- "Should GHG Protocol introduce sector-specific disclosure requirements for investments?"
    - Yes – 25% (3/12)
    - No – 33% (4/12)
    - Other – 17% (2/12)
    - Abstain – 25% (3/12)

- The Secretariat informed TWG members that a feedback form would be provided to specify minimum boundaries for specific facilitated investment types or activities from slide 26

6. Time planning and next steps

- Refer to Presentation slides 57-63
- The Secretariat skipped slides 40-56 to be discussed in the next meeting
- The Secretariat informed the TWG members that Meeting #6 on March 6th would be held at 9am EST

Discussion

- N/A

Outcomes

- N/A

Summary of written submissions received prior to meeting

N/A