GREENHOUSE GAS PROTOCOL

WORLD RESOURCES INSTITUTE

WBCSD World Business Council for Sustainable Development

Scope 3 TWG Full Group Meeting Minutes

Meeting 2
Date: May 22, 2025
Time: 09:00 – 11:00 AM ET
Location: Virtual

Attendees

Technical Working Group Members

1. Sahil Aggarwal, Siemens Healthineers
2. Alissa Benchimol, Greenhouse Gas Management Institute
3. Zola Berger-Schmitz, Science Based Targets initiative
4. Lindsay Burton, Ernst & Young
5. Leo Cheung, The Carbon Trust
6. Karis Choi, HSBC
7. Betty Cremmins, Independent
8. Dario Alessandro de Pinto, Banca D'Italia
9. Verena Ehrler, IESEG School of Management
10. Holly Emerson, Duke University
11. Hugo Ernest-Jones, Science Based Targets initiative
12. Talita Esturba, WayCarbon
13. Victor Gancel, Danfoss
14. Isikaha Hanghuja, Uganda National Bureau of Standards (UNBS)
15. Alasdair Hedger, Ellen MacArthur Foundation
16. Ashwini Hingne, WRI
17. Elijah Innes-Wimsatt, Conservation International
18. Tom Jackson, Loughborough University
19. Alexandre Kelemen, Mangue Tech
20. Meghan Kennedy, NetApp
21. Michael King, Cisco Systems, Inc.
22. Aysegul Koseoglu, Inter IKEA
23. Tim Letts, WWF
24. Alan Lewis, Smart Freight Centre
25. Thea Lyngseth, ECOS
26. Ryan Maloney, Apple
27. Shannon McIlhone, Partnership for Carbon Accounting Financials (PCAF)
28. Christoph Meinrenken, Columbia University
29. Fredrick Mokua, UNFCCC
30. Nadia Montoto, KPMG
31. Elliot Muller, CIRAIG, Polytechnique Montreal
32. Nicola Stefanie Paczkowski, BASF
33. Hetal Patel, Phoenix Group
34. Vishwesh Pavnaskar, Indorama Ventures
35. Colin Powell, PwC
36. David Quach, Wesfarmers
37. Verena Radulovic, Center for Climate and Energy Solutions (C2ES)
38. Ellen Riise, Essity Hygiene & Health AB
39. Benedicte Robertz, Umicore
40. James Salo, S&P Global Sustainable1
41. Fabiola Isabel Schneider, University College Dublin
42. Howard Shih, Science Based Targets initiative
43. Julie Sinistore, WSP
44. Stacy Smedley, Eastern Research Group
45. Alan Sean Somerville, University of Stirling
46. Arundhati Srinivasan, Maersk
47. Sangwon Suh, Watershed
48. Enric Tarrats, Banc Sabadell
49. Francesca Testa, CDP
50. Carl Vadenbo, ecoinvent association
51. Luhui Yan, Carbonstop

Guests

N/A

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GHG Protocol Secretariat

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

Documents referenced

1. Discussion Paper C.1 - Investments - Version 2.0
2. Scope 3 – Full Group – Meeting 2 - Presentation – 20250522 ("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	**Introduction** The Secretariat presented an overview of outcomes of subgroups A, B, and C, and a summary of Category 15 as currently written in the *Scope 3 Standard*.	N/A
3	**Revisions** The Secretariat presented a summary of draft revisions proposed by subgroup C, presenting the draft language, a description, rationale, level of support from subgroup C, and implications for each item.	No indicative voting was held (see next outcome).
4	**Time planning and next steps** The next meeting will take place on May 29th at 9-11 AM ET, concerning the outcomes of subgroup A revision considerations.	The Secretariat will circulate a post-meeting survey to poll members on the issues discussed in the meeting. The other two scheduled full group meetings will have similar post-meeting surveys. The deadline for all three (3) survey forms is Friday, February 13th.

Discussion and outcomes

1. Housekeeping and decision-making criteria

- Refer to Presentation slides 3-6.
- The Secretariat presented the meeting agenda, housekeeping rules, and decision-making criteria.

<u>Discussion</u>

- N/A

Outcomes

- N/A

2. Introduction

- Refer to Presentation slides 7-12.
- The Secretariat presented an overview of outcomes of subgroups A, B, and C, and a summary of Category 15 as currently written in the *Scope 3 Standard*.

Discussion

- N/A

Outcomes

- N/A

3. Revisions

- Refer to Presentation slides 13 – 62.
- The Secretariat presented a summary of draft revisions made by subgroup C, presenting the draft language, a description, rationale, level of support from subgroup C, and implications for each item.
- This document uses the following terms for reference.
    - Financial institutions (abbreviated "FI")
    - Non-financial institutions (abbreviated "non-FI"), which includes all companies that are not FIs

Discussion

1. Applicability for non-financial institutions (non-FIs) (i.e., all companies)

- A TWG member asked for more clarity on what financial instruments would be covered (e.g., would cash deposits or cash equivalents be included)
    - The Secretariat stated that all financial instruments are itemized in the proposed Table 5.9.
- A TWG member asked if the guidance would be clear that if you are a non-FI, you should use Scope 3 Category 15, and if you are an FI, you should use Partnership for Carbon Accounting Financials (PCAF) Part A, Part B, and/or Part C; or whether FIs would be expected to use both Scope 3 Category 15 and PCAF, given that many if not most FIs by default currently use PCAF.
    - The Secretariat stated that reference to third-party industry-specific standards will be discussed later in this presentation (issue #11).
- A TWG member asked about the footnote on slide 19, that 'investee' and 'asset' may be used interchangeably, and asked if that would be the case in the updated *Scope 3 Standard*, stating that it might cause confusion with leased assets.
    - The Secretariat took note of this concern and would follow up with the TWG members.

2. Category 15 is now only investments (proper) (i.e., "financed emissions") all of which are **required**

- A TWG member commented on slide 24, that the term 'financed emissions' is more associated with FIs, rather than non-FIs. Thus, the usage of the term investments (meaning 'financed emissions') gives mixed messages, if the goal is to ensure all organizations with investments consider Category 15.

3. Other financial activities

    - Underwriting and insurance contracts (formerly included in two separate tables) were both moved to Category 16 (i.e. facilitated emissions) which is tentatively optional
    - See: PCAF, Part B (2023), Underwriting and issuance

    - See: PCAF, Part C (2022), Insurance-associated emissions

- A TWG member reflected on the proposal to make insurance contracts optional rather than required, stating that if a company provides insurance to a business, there is the argument that that makes them a proponent of the longevity/survival of the business.

4. Move all other financial activities and services to Category 16 (Secretariat proposal)

- A TWG member asked if cash equivalents would go into Category 16.
    - The Secretariat clarified that cash deposits are straightforward to include in a new Category 16 (for facilitated activities), however, the Secretariat tentatively included cash equivalents in Category 15 as an asset, given that cash equivalents are technically a short-term investment. However, in both GAAP and IFRS, cash and cash equivalents (C&CE) are not reported as investments and therefore could be included in Category 16 (facilitated activities).
    - The TWG member replied that they are curious how non-FIs would react to cash deposits going into Category 16 and cash equivalents in Category 15. They questioned if this would result in arbitrary reporting volatility (as CC&E is moved between Category 15 and Category 16 based on whether an FI or non-FI holds its money in cash, cash equivalents, and/or other investment types – given that they are essentially fungible. The member stated that this might negatively impact the incomparability of reported GHG emissions.
    - The Secretariat replied that cash is, unambiguously, not an investment. Cash equivalents on the other hand are indirect investments, as companies earn interest (e.g., money market instruments). Disaggregated reporting could resolve year-over-year comparability of investments.
    - The member stated that conceptually, there is not a big difference between cash deposits and cash equivalents, but in any case, the practical consideration mentioned before is a concern.
- A TWG member stated that line items influence very few companies in reporting, and the disaggregation will not make a difference in practice. The member voiced concern about GHG Protocol requiring calculations for activities that do not generate profit. The distinction between cash that is generating interest vs. cash that is not is not a helpful distinction for companies. This will result in companies reporting significant emissions in their scope 3 over which they have limited influence (beyond spending the cash or storing it under a mattress). This doesn't provide useful information. The member said the proposed Category 15 outline is simpler and clearer than the current *Scope 3 Standard*, but questioned the extent of reporting for non-profit-generating, finance-maintenance activities (e.g., cash balances).
- A TWG member stated that companies have a choice about which bank they put their money into; and therefore, could prioritize banks with less fossil fuel exposure.
- A TWG member stated that this conversation has a materiality/exclusion override. Choices exist concerning where to invest, so reporting may be relevant for organizations with vast cash reserves. For others with smaller reserves, this won't be relevant.
- The Secretariat clarified that there could be an option to exclude this from reporting (see: issue #8); for example, companies could state (as a justification for exclusions) that they do not have any influence over the use of cash deposits or cash equivalents (both of which are held for liquidity and to operate the business).
- A TWG member countered hypothetically that keeping the lights on in the office maintains current operations, but doesn't directly generate profit; but a company includes this in their scope 1 or scope 2.

5. All companies shall account for category 15 (investments)

- N/A

6. Required scope 3 emissions include an investee's scope 1, 2, and 3

- A TWG member stated that they did not understand the footnote about category-specificity on slide 37.
    - The Secretariat clarified that this footnote was intended for the previous slide, specifically, that if a reporting company has financial control (e.g. is the 100% owner of a subsidiary) and relies on the financial control consolidation approach, then the reporting company should include the investee's scope 1, scope 2, and category-specific scope 3 emissions in their (the reporting

company's) scope 1, scope 2, and scope 3 categories; and not in the reporting company's scope 3 Category 15.
   - The Secretariat apologized for the mistake and stated that this correction will be made in the presentation.

7. <u>The 5% exclusion threshold applies to Category 15 (i.e., all categories)</u>

- A TWG member stated that they thought that the group had landed on using category 1 through 14 as the denominator for the 5% exclusion threshold.
   - The Secretariat clarified that TWG polling had been inconclusive, with a split vote by subgroup B (not the entire scope 3 TWG) between using sub-total category 1-14 emissions vs. sub-total category 1-15 emissions for the denominator (to calculate the 5% exclusion threshold).
- A TWG member asked if this question will be covered again in the post-meeting survey.
   - The Secretariat stated that it would be included in the post-meeting survey.
- A TWG member stated that the 5% exclusion threshold seems to be a practical approach, allowing a reporting firm to focus efforts on the most material activities based on magnitude of emissions.

8. <u>Should a Category 15-specific exemption be drafted (like for intermediate products)?</u>

- A TWG member stated that from an assurance standpoint, the language "reasonably estimate" is hard to assure against, and suggested more detailed or pointed language. "Reasonably estimate" cannot be defined by assurance providers and is still subject to interpretation.
   - The Secretariat replied that IFRS defines materiality not based on fixed thresholds but implicitly based on market perception.[1] Perhaps this principle could be applied to 'reasonably estimate'? The language was inherited from current text on intermediate products, but it is now objectively more possible for companies to do calculations than it was 20 years ago.
   - The TWG member stated that when in doubt, it is better to be more specific. The less interpretation is needed, and the more specific the language is, the easier assurance will be.
   - The Secretariat asked the group for proposals on alternative wording
   - The TWG member said that it would need to be better defined.
   - The Secretariat suggested 'undue burden' or 'undue cost', caveating that then companies would say that calculating a footprint is too expensive, which is not the case.
   - A TWG member asked if in subgroup C discussions, other language proposals had come up.
   - The Secretariat stated that nothing more pointed had been suggested.
   - A TWG member suggested that this could be done case by case.
   - A TWG member added that if one company in a given sector can calculate emissions, then it is reasonable that another company in the same sector could likewise calculate emissions. The member also asked what reasonably estimate means regarding data quality. Referring to work done by subgroup A, what would happen if data quality is not considered good enough?
   - The Secretariat replied that subgroup A considered whether data of different types and quality could serve different purposes and objectives. The latter are company- and context-specific and are to be defined by the users of the inventory. As such, there is no universal 'good enough'.
- A TWG member asked whether this can be specified (and differentiated) by investment type. For example, for joint ventures, it may be possible to get high quality emissions data for scope 3 category 15 reporting by the owner(s) while, for other investments, the necessary effort to quantify and report emissions may be 'unreasonable'.

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[1] According to **IFRS S1**, paragraph 18: "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." According to **IFRS S2**, Basis for Conclusions: "Material information about an entity's sustainability-related risks and opportunities enables users of general purpose financial reports to make decisions in relation to providing resources to the entity. In applying IFRS Sustainability Disclosure Standards, including IFRS S2, an entity is required to make materiality judgements and disclose material information about the sustainability-related risks and opportunities, including the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects."

    - The Secretariat replied that this is what is meant by limiting the exclusion to some investment types. The Secretariat asked if there are any assurance providers in the group, or if any TWG members have contact to assurance providers, that could provide feedback on and potentially improve the proposed language.
    - The Secretariat also proposed deleting the word "reasonable" replacing it with: "unable to estimate", asking the group whether that would solve the problem.

9. <u>Require the disclosure of reported category 15 investments as % of total carrying value (of all assets and financial instruments</u>

- N/A

10. <u>Equity investments to calculate proportionality including equity and debt</u>

- N/A

11. <u>Direct reference to industry-specific GHG emissions accounting and reporting standards</u>

- A TWG member voiced their concern about ensuring alignment on content, rather than worrying about how the reference to industry-specific standards is made in the language of the *Scope 3 Standard*. The member expressed concern that not all requirements between GHG Protocol and third-party standards will be aligned or harmonized, thus uncertainty will remain among users.
- A TWG member agreed with the previous speaker, asserting that industry-specific standards are often developed to clarify the industry-agnostic language of the GHG Protocol. This revision review process by the Secretariat and various workstreams/TWGs will not solve everything. The member argued that, more important than referencing third-party industry-specific standards, is the creation of a mechanism by which third-party standard setters/drafters can engage with the GHG Protocol to resolve potential points of misalignment, to harmonize or otherwise resolve them. There should be ongoing discussions between sectors and the GHG Protocol.
- The Secretariat agreed that alignment is preferred, and that sector-specific guidance is very important.
- A TWG member added that the general level of alignment between GHG Protocol and third-party industry-specific standards/guidance is already quite good but argued that it always comes down to specifics. The member mentioned two examples: First, the degree of disaggregation required for reporting purpose. Disaggregating results may or may not be possible depending on what data is accessible or available in a given sector. Second, emissions from backhauling in the transport sector, which is required in the GLEC Framework, is optional for GHG Protocol *Scope 3 Standard* compliance. This is an example of a detail that, if updated, would remove current divergence.
    - The Secretariat posited that if backhauling were required of all reporting companies, that said it would, in many cases, fall below the proposed 5% exclusion threshold of a reporting company and thus could be excluded.
    - The member stated that most reporters are following industry guidance, and that if backhauling is made an integral part of the methodology, then it would be difficult to exclude. The member argued that it's a question of removing any confusion for new reporters, who currently come across guidance that diverges from GHG Protocol.
- A TWG member asked if Category 15 and the proposed (new) Category 16 would be directed to inventories consolidated by operational control, and if inventories consolidated by equity share or financial control would have emissions distributed in scopes 1, 2, and 3. The member also asked if there would be exceptions, and if so, if they would be described in the guidelines.

12. <u>Organizational boundaries (consolidation approach guidance has been edited in conformance with expected CS TWG revisions)</u>

- N/A

13. <u>Time boundary (more guidance has been edited that is consistent with the original content)</u>

- N/A

14. Calculation guidance (no new calculation methods have been developed)

- N/A

Outcomes

- N/A

4. Next Steps

- Refer to Presentation slides 63 – 65.
- The next meeting will take place on May 29th at 9 – 11 AM ET, concerning outcomes of subgroup A.

Discussion

- The Secretariat informed members that a current TWG member, Dario Alessandro de Pinto, will be seconded to the Secretariat to support the Scope 3 Workstream, for the next few months and will be stepping down from the TWG for the duration of his secondment.
- The Secretariat informed members that GHG Protocol now has an open opportunity for secondments and welcomed members to volunteer.

Outcomes

- The Secretariat will circulate a post-meeting survey, to poll members on the issues discussed in the meeting. The Secretariat will repeat this procedure for the other two scheduled full group meetings, and members can choose to wait to submit their responses until after all three meetings to vote on proposed changes across the three groups together. All surveys are due by Friday, June 13th.

Summary of written submissions received prior to meeting

N/A