

# Scope 3 Technical Working Group Meeting

WORKING DRAFT; DO NOT CITE

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**Group C (Investments)**  
**Meeting 11 (final Phase 1 meeting)**  
**Commodities & Licensing**

July 31<sup>st</sup>, 2025

# Agenda

(Draft; for TWG discussion)

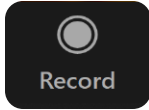
- Housekeeping and decision-making criteria (5 min)
- Short positions (15 min)
- Other financial activities/services in Cat. 16 (15 min)
- Commodities (30 min)
- Licensing (45 min)
- Time planning and next steps (10 min)

# Housekeeping and decision-making criteria

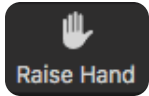
## Disclaimer:

- This is a working document to be used as input for discussions of the Technical Working Group (TWG) of the Scope 3 Standard update process. The notes and views, if any, expressed in this document do not reflect a position of the Greenhouse Gas Protocol, WRI, WBCSD, nor members of the TWG or any affiliations thereof, unless otherwise stated explicitly. The options and preliminary comparisons herein are not designed to be final, complete, or all-encompassing.

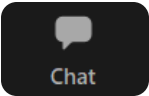
## Meeting information



This meeting is recorded.



Please use the Raise Hand function to speak during the call.



You can also use the chat function in the main control.



Recording, slides, and meeting minutes will be shared after the call.

## Housekeeping

- TWG members should **not disclose any confidential information** of their employers, related to products, contracts, strategy, financials, compliance, etc.
- In TWG meetings, **Chatham House Rule** applies:
  - “When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.”
- **Compliance and integrity** are key to maintaining the credibility of the GHG Protocol
  - Specifically, all participants need to follow the **conflict-of-interest policy**
  - **Anti-trust rules** have to be followed; please avoid any discussion of competitively sensitive topics\*

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\* Such as pricing, discounts, resale, price maintenance or costs; bid strategies including bid rigging; group boycotts; allocation of customers or markets; output decisions; and future capacity additions or reductions

## Standard setting language

- GHG Protocol standards use precise language to indicate which provisions of the standard are requirements, which are recommendations, and which are permissible or allowable options that companies may choose to follow.
- “**Shall**” indicates what is required to be in conformance with the standard.
- “**Should**” indicates a recommendation, but not a requirement.
- “**May**” indicates an option that is permissible or allowable.

## Decision-Making Criteria

- Evaluating options: Describe the pros and cons of each option relative to each criterion. Qualitatively assess the degree to which an option is aligned with each criterion through a green (most aligned), yellow (mixed alignment), orange (least aligned) ranking system. Some criteria may be not applicable for a given topic; if so, mark N/A.
- Comparing options: The aim is to advance approaches that ideally meet all decision criteria (i.e., maximize the pros and minimize the cons against all criteria). If options present tradeoffs between criteria, the hierarchy should be generally followed, such that, for example, scientific integrity is not compromised at the expense of other criteria, while aiming to find a solution(s) that meet all criteria.

<i>Decision-making criteria</i>	Option A	Option B	Option C
1A. Scientific integrity	• Pros • Cons	• Pros • Cons	• Pros • Cons
1B. GHG accounting and reporting principles	• Pros • Cons	• Pros • Cons	• Pros • Cons
2A. Support decision making that drives ambitious global climate action	• Pros • Cons	• Pros • Cons	• Pros • Cons
2B. Support programs based on GHG Protocol and uses of GHG data	• Pros • Cons	• Pros • Cons	• Pros • Cons
3. Feasibility to implement	• Pros • Cons	• Pros • Cons	• Pros • Cons



# Short positions (Exclusion of)

## Short positions are excluded from Category 15

- Exclusion (added to file: "Revision - Category 15 v8"):
  - “For the avoidance of doubt, a short position held by a short seller does not constitute equity or an ownership interest; companies that hold short position (e.g., traders) may account for emissions associated with the underlying asset in Category 16.” (footnote)
  - Footnote: “A short position involves three parties: (i) the short seller, who borrows securities and sells them into the open market; (ii) the lender of the securities, who loans the securities to the short seller with the expectation that equivalent securities will be returned; and (iii) the market counterparty, who purchases the borrowed securities in the open market and thereby holds the equity interest in the underlying entity or asset associated with those securities. A short position represents an obligation on the part of the short seller to return the borrowed securities to the lender. At no point (either before entering, during, or after exiting a short position) does the short seller hold any equity or ownership interest in the underlying entity or asset associated with the securities.”

## Short positions are optional in Category 16 (Facilitated emissions)

- Optionality, added to Category 16.3, Other financial activities and services:

Activity or service	Description	Boundary requirements and guidance
<b>16.3.7</b> <b>Short positions</b>	Short positions held by a reporting company.	<p>If a short seller (reporting company) chooses to report the emissions attributable to the underlying asset(s) and/or business operations associated with the securities, it <b>should</b> account for <b>all (100%)</b> of the scope 1, scope 2, and scope 3 emissions of the underlying asset and/or business operations.</p> <p>For the avoidance of doubt, if the emissions of the underlying asset decreases, the reporting company <b>shall not</b> report avoided emissions in said company's Scope 3 inventory.</p>

# **Other financial services and activities (in Category 16)**

## Classification

- 16.3. Other financial activities and services
  - **16.3.1. Advised investments** – Investments advised by the reporting company (advisor perspective)
  - **16.3.2. Compensation payments (employer perspective)** – Compensation payments (made by an employer to a pension fund or retirement account)
  - **16.3.3. Insurance premium-related (insured party perspective)** – Insurance premium-associated emissions (insured party perspective)
  - **16.3.4. Cash deposits (depositor perspective)** – Cash deposits (excluding cash equivalents) (depositor perspective)
  - **16.3.5. Donations (donor perspective)** – Cash donations (donor perspective)
  - **16.3.6. Derivatives (buyer and/or seller perspective)** – Derivatives (including futures, options, and swaps) (buyer and/or seller perspective)
  - **16.3.7. Short positions (short seller perspective)** – Short positions represent an obligation on the part of the short seller to return the borrowed securities to the lender.

## ***Requirements (not change from previous meeting C.10)***

- ***Boundary requirements:***
  - *Companies **may** account for (16.3) other financial activities.*
  - *If included, companies **should** account for the scope 1, scope 2, and scope 3 emissions of the activity facilitated by the financial activity.*
- ***Reporting requirements:***
  - *If reported, companies **shall** disaggregate other financial activities using the above line-items (16.3.1 through 16.3.6).*
  - *If reported, advisors **should** disaggregate advised investments using three sub-totals for equity, debt, and project finance.*
- ***Calculation method:***
  - *No calculation methods are provided for the following investment types. Reporting companies should, where possible, rely on industry-specific standards and/or common best practice to quantify emissions attributable to the following financial instruments and/or financial activities.*

## Matrix of activities and facilitated activity definition conformance

Financial activity and/or service	(a) enabled, initiated, influenced	(b) does not own or directly operate activity	(c) from which economic value is generated
16.1.1 Insurance-associated	Satisfied	Satisfied	Satisfied
16.1.2 Claims payment-associated	Satisfied	Satisfied	Maybe *
16.2 Underwriting and issuance	Satisfied	Satisfied	Satisfied
16.3.1 Advised investments	Satisfied	Satisfied	Satisfied
16.3.2 Compensation payments	Satisfied	Satisfied	Maybe **
16.3.3 Insurance premium payments	Satisfied	Satisfied	Satisfied ***
16.3.4 Cash deposits (of depositor)	Satisfied	Satisfied	Maybe or No
16.3.5 Donations (donor perspective)	Satisfied	Satisfied	Yes ^
16.3.6 Derivatives	Maybe	Satisfied	No ^^

\* Premium payments generate income for insurer subject to liability of claims payments.

\*\* Economic value is employee labor; unsure whether it is transactionally recorded.

\*\*\* Insurance premium payments provide liability coverage (economic value).

^ Donors do not have any economic interest in the donee (receive of donations) but they do economically benefit from lowered tax obligations.

^^ Speculators of (investors in) derivatives may earn money from price volatility, not the underlying business.

# Commodities and Crypto (in Category 15)



# Description

- **Classification:**
  - 15.1.12 Commodities
- **Description:**
  - “Commodities purchased by a reporting company, including:
    - Fuel and energy
    - Metals (precious metals, e.g., gold, silver, palladium; and base metals, e.g., copper, nickel, aluminum)
    - Agricultural and forestry (grains, oilseeds, soft commodities, e.g., coffee, cocoa, sugar, cotton, and other, e.g., rice, sorghum, palm oil, timber, paper, pulp, etc. )
    - Livestock and meat (live cattle, processed meats)
    - Fungible and/or non-fungible tokens (e.g., BitCoin, Ethereum, Tether, NFTs, etc.)”

## Proposed language on 15.1.12 Commodities (in Category 15)

- **Classification requirements:**
  - **Category 1:**
    - “For the avoidance of doubt, any and all commodities purchased and used or consumed by the reporting company shall be accounted for as a purchased good or service (Category 1).” (footnote)
  - **Category 15.1.10:**
    - “Commodity ETFs/ETNs shall be accounted for and reported using 15.1.10.”
  - **Category 16:**
    - “Over-the-counter (OTC) derivatives (including swaps, forwards, or options) are derivatives and shall be accounted for using Category 16, if included.”
    - “A futures contract (including an exchange-traded derivative) is a derivative and shall be accounted for using Category 16, if included.”
- Footnote:
  - “If a reporting company purchases a commodity (e.g., steel) and only uses a fraction (e.g., 20%) for consumption or use, while selling the remainder (e.g., 80%), then it shall account for and report emissions attributable to the commodity in both Category 1 and Category 15 (specifically, in this example, 20% in Category 1 and 80% in Category 15)”

## Boundary and consolidation

- **General boundary requirement:**
  - “An investor or holder (the reporting company) **shall** account for the cradle-to-gate (upstream) emissions attributable to a commodity (excluding fuel and energy-related activities).”
- **Specific boundary requirement for fuel and/or energy:**
  - “In the case of fuel and/or energy purchased and sold by the reporting company that are not accounted for in scope 1, scope 2, scope 3 category 3, or scope 3 category 11, the reporting company **shall** account for both the **cradle-to-gate** and **gate-to-grave** emissions of the fuel and/or energy in category 15.
  - Refer to Category 3 for requirements and guidance in accounting for and reporting emissions attributable to fuel- and energy-related activities (not included in the reporting company’s scope 1 and scope 2 emissions inventories).” (footnote)
- Footnote:
  - “Fuel includes crude oil, gasoline, diesel, kerosene, jet fuel, natural gas (methane), coal (anthracite, bituminous, lignite), peat, oil shale, biofuels (wood, biomass, ethanol, biodiesel, biogas, bio-/algae-based oil, MSW), nuclear fuels (uranium, plutonium, thorium, deuterium and tritium), hydrocarbon, ammonia, and metal powders.
  - Energy includes electricity, thermal energy (heat, steam, district heating, i.e., hot water, ice/chilled water, molten salt, etc.), capacitors/supercapacitors, and batteries.”

## Boundary and consolidation (continued)

- **Specific boundary requirement for fungible and non-fungible tokens:**
  - “In the case of fungible tokens (e.g., cryptocurrency), data tokens, decentralized compute or storage tokens, and non-fungible tokens, the reporting company
    - **shall** account for the emissions attributable to producing or creating the token...
    - **shall** also account for the scope 1 and/or scope 2 emissions attributable to operating and cooling the data infrastructure used to store, manage, or hold such tokens.” (footnote)
- Footnote:
  - “If the reporting company owns the data infrastructure used to store or manage the fungible or non-fungible token(s), then the emissions from operating that infrastructure shall be included in the reporting company’s scope 1 and/or scope 2 GHG emissions inventories, as applicable.”

## Accounting for purchased/sold commodities

Buying reason	Consumption/use	Investment	
Description	Company purchases commodity to <b>consume and use</b> it (e.g., farmer buys grain for livestock)	Company purchases commodity to <b>earn return</b> (from price appreciation) or for <b>inflation protection</b>	Company purchases commodity via <b>mutual fund or ETF shares</b> (15.1.10*)
Classification (cradle-to-gate)	<b>Category 1</b> (purchased goods and services)	<b>Category 15</b> (investments)	<b>Category 15</b> (investments)
Classification (gate-to-grave)	<b>Category 10/11</b> (use of sold intermediate/final product) **	<i>Ibid</i>	<i>Ibid</i>
Required (min.) boundary	Cradle-to-gate (upstream) and potentially also gate-to-grave (downstream)	Scope 1, scope 2, and scope 3 emissions of investments	Scope 1, scope 2, and scope 3 emissions of investments
Examples	Grain for livestock; metals for PV manufacture; material inputs for beauty products.	Commodities trading houses (e.g., Glencore); commodity funds (e.g., PIMCO's PCRAX)	Shares of Gold ETFs (ticker: GDX, GDXJ); PIMCO Commodity Real Return Strategy (ticker: PCRAX)

\* These are identified as a financial instruments under Category 15, investments, the emissions from which a company shall account and report; companies may justify exclusions of 15.1.10 as per *Draft Revision Category 15 v6.0 (2025.05.29)*. \*\* Companies may not have downstream emissions attributable to all commodities.

# Licensing (in Category 14)

## Proposed revision (directional, not language-specific)

- Proposal: Expand the scope of Category 14 to unambiguously include emissions from licensing
  - Brand Licensing (only)
    - Consumer product licensing
    - Themed entertainment (events/experiences)
    - Promotional licensing
  - IP Licensing
    - Copyright
    - Patent
    - Trade Secret
    - Design
  - Software licensing
  - Media & content licensing

## Royalty-based (% price or revenue) method

- General calculation or attribution method: \*
  - $\text{Licensor emissions} = (\% \text{ royalty}) \times (\text{product lifecycle emissions})$
  - % royalty
    - Royalty as % of Price (for standard % royalties)
    - Total expected royalty fee % of Total expected Revenue (for \$ fee royalty agreements)
- Methods for estimating emissions:
  - Product-specific (product-specific LCA footprint)
  - Archetype method (secondary EF for representative product)
  - Average data method (average industry values)
  - Spend-based method (EEIO)
  - Hybrid (any combination of the above)

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\* The alternative method would be to account for 100% of the emissions attributable to products of the licensee.



## Comparison of franchisor and (tentative) licensor requirements

Franchisors	Licensors
<b>Description:</b> “A franchise[e] is a business operating under a license to sell or distribute... [a franchisor’s] goods or services within a certain location.”	<b>Description:</b> A licensee is business operating under a license to use specific intellectual property (IP) of a licensor (e.g., branding) to produce and/or sell goods and services.
<b>Scale:</b> Franchisee uses full business model/system	<b>Scale:</b> Licensor uses specific IP
<b>Control:</b> Franchisor dictates key operations	<b>Control:</b> Licensee operates independently
<b>Royalty rate:</b> High (5-12% of gross revenue)	<b>Royalty rate:</b> Low (1-7% of gross revenue); sometimes these rates are higher
<b>Required:</b> “The scope 1 and scope 2 emissions of franchisees that occur during operation of franchises (e.g., from energy use)”	<b>Required:</b> Scope 1, scope 2, and scope 3 emissions of the product(s) or service(s) sold by the licensee that relies on or uses the licensor’s IP
<b>Optional:</b> “The life cycle emissions associated with manufacturing or constructing franchises”	<b>Optional:</b> n/a
<b>Boundary:</b> All (100%) of the scope 1 and scope 2 emissions of the franchisee (entity).	<b>Boundary:</b> <del>All (100%) or</del> * Royalty-based fraction (%) of emissions attributable to the product/services that uses the licensor’s IP.

\* Removed the all (100%) boundary option.

## Reference: Category 14: Franchising (current *Scope 3 Standard*)

- ***Scope 3 Standard (Chapter 5):***
  - “This category includes emissions from the operation of franchises not included in scope 1 or scope 2. A franchise is a business operating under a license to sell or distribute another company’s goods or services within a certain location. This category is **applicable to franchisors** (i.e., companies that **grant licenses** to other entities to sell or distribute its goods or services in return for payments, such as **royalties** for the **use of trademarks** and **other services**). Franchisors should account for emissions that occur from the operation of franchises (i.e., the scope 1 and 2 emissions of franchisees) in this category.
  - Franchisees (i.e., companies that operate franchises and pay fees to a franchisor) **should** include emissions from operations under their control in this category if they have not included those emissions in scope 1 and scope 2 due to their choice of consolidation approach.
  - Franchisees may **optionally** report upstream scope 3 emissions associated with the franchisor’s operations (i.e., the scope 1 and scope 2 emissions of the franchisor) in category 1 (Purchased goods and services).”

## Reference: Category 14, Franchisors (current *Scope 3 Standard*)

- **Required boundary**
  - Scope 1 and scope 2 emissions of franchisee
    - Site-specific fuel use, electricity, and other process and fugitive emissions
    - For leased buildings or assets (the floor space, building type, number of assets, etc.)
- **Optional boundary**
  - The life cycle emissions associated with manufacturing or constructing franchises
- **Calculation method**
  - Franchise-specific method, which involves collecting site-specific activity data or scope 1 and scope 2 emissions data from franchisees
  - Average-data method, which involves estimating emissions for each franchise, or groups of franchises, based on average statistics, such as average emissions per franchise type or floor space.

# Next steps

## Next steps

- **Follow-up**
  - Distribute the recording, minutes and survey
- **Update on Phase 2 of the TWG**
  - Phase 2 has been consolidated into full group TWG meetings
  - The first Phase 2 meeting will be on **Thursday, August 28<sup>th</sup> at 9:00 – 11:00 am ET**

**Thank you!**

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