

# Scope 3 Subgroup B Meeting Minutes

Meeting number 3

Date: 12 December 2024

Time: 09:00 – 11:00 ET

Location: Virtual

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## Attendees

### Technical Working Group Members

1. Lindsay Burton, Ernst & Young
2. Leo Cheung, The Carbon Trust
3. Betty Cremmins, Independent
4. Mathilde Crepy, ECOS
5. Holly Emerson, Duke University
6. Hugo Ernest-Jones, Science Based Targets initiative
7. Victor Gancel, Danfoss
8. Alasdair Hedger, Ellen MacArthur Foundation
9. Mitavachan Hiremath, SusPoT - Center for Sustainability
10. Tom Jackson, Loughborough University
11. Aysegul Koseoglu, Inter IKEA
12. Tim Letts, WWF
13. Alan Lewis, Smart Freight Centre
14. Ryan Maloney, Apple
15. Nicola Stefanie Paczkowski, BASF
16. Vishwesh Pavnaskar, Indorama Ventures
17. David Quach, Wesfarmers
18. Ellen Riise, Essity Hygiene & Health AB
19. Benedicte Robertz, Umicore

### Guests

1. N/A

### GHG Protocol Secretariat

1. Natalia Chebaeva
2. Alexander Frantzen
3. Claire Hegemann
4. Allison Leach
5. David Rich

## Documents referenced

1. Discussion Paper B.1 Boundary Setting
2. Scope 3 – Group B – Meeting#3 – Presentation

## Summary

| Item | Topic and Summary   | Outcomes   |
|------|---|--|
| 1    | <b><i>Housekeeping</i></b><br>The Secretariat presented the housekeeping rules and the decision-making criteria.  | N/A  |
| 2    | <b><i>Recap of the previous discussion and feedback</i></b><br>The Secretariat presented a summary of the previous discussion and decisions. The Secretariat presented feedback received during Meeting #2 as well as the Secretariat's response.   | N/A  |
| 3    | <b><i>Magnitude threshold for scope 3 exclusions</i></b><br>The Secretariat presented results of the poll held prior to the meeting regarding preferred configurations for a magnitude threshold for scope 3 exclusions, as well as additional supporting calculations and references. The group discussed the configuration preferences. | Secretariat to follow up with the TWG members with a request for evidence.   |
| 4    | <b><i>De minimis</i></b><br>The Secretariat presented the issue of de minimis, whether de minimis should be defined in the <i>Scope 3 Standard</i> , options for consideration, and results of the poll held prior to the meeting. The TWG members discussed the options.   | N/A  |
| 5    | <b><i>Indicative polling</i></b><br>The Secretariat held several polls for TWG members concerning support for a magnitude threshold for scope 3 exclusions, naming or titling, reporting implications, and de minimis.  | The TWG members indicated a preference for a cumulative scope 3 exclusion threshold of up to 5% of total scope 3 emissions. TWG members preferred the use of "NR" (not reported) to indicate excluded categories when reporting rather than reporting zero. TWG members preferred integrating de minimis into the overall magnitude threshold requirement. The group did not yet reach a general agreement on whether the standard should prescribe a single threshold for all companies or provide a default threshold value which companies could deviate from if they disclose and justify an alternative threshold. The group did not yet reach a general agreement on whether to introduce an additional exclusions threshold on a scope 3 category level (in addition to the cumulative threshold), or on the best name for the threshold. |
| 6    | <b><i>Next steps</i></b><br>The Secretariat presented next steps.   | N/A  |

## Discussion and outcomes

### 1. Housekeeping

- The Secretariat presented the housekeeping rules and the decision-making criteria (see slides 2-7).

#### Summary of discussion

- N/A

#### Outcomes (e.g. recommendations, options)

- N/A

### 2. Recap of the previous discussion and feedback

- The Secretariat presented a summary of the previous discussions and decisions.
- The Secretariat presented the feedback received on meeting#2 as well as the Secretariat's response. (see slides 9-13).

#### Summary of discussion

- N/A

#### Outcomes (e.g. recommendations, options)

- N/A

### 3. Magnitude threshold

- The Secretariat presented results of the poll held prior to the meeting on the preferred configurations of a magnitude threshold, as well as additional supporting calculations and references (see slides 15-21).

#### Summary of discussion

- TWG members discussed SBTi requirements for excluding emissions from a GHG inventory and from the scope of near-term and long-term targets.
- A TWG member asked whether estimated total scope 3 emissions or total scope 3 emissions after exclusions should be used as the denominator to calculate a threshold; and highlighted that the choice may impact the scope 3 activities that companies include in their scope 3 inventory.
- A TWG member emphasized the need for a cumulative threshold, warning that a per-activity threshold could be manipulated via an arbitrary subdivision of activities to maximize exclusions.
- Several TWG members expressed support for a cumulative threshold. Three TWG members asserted that they see 5% to be a maximum for a cumulative threshold.
- A TWG member supported a per-activity threshold (in addition to a cumulative threshold), citing the example on slide 19, and advocated for a 1% per-activity threshold. The member advocated for the disclosure of size of any excluded emissions as ranges, e.g. whether they are above or below 1% of the total scope 3.
- A TWG member highlighted that an activity-based threshold would be arbitrary due to the innumerable ways activities can be defined. Activity-based thresholds could be provided as normative guidance but not be required. Other TWG members agreed with the ambiguous and arbitrary nature of activity definitions, noting that activities could be interpreted as a category, subcategory, and/or as a specific source of emissions. The Secretariat confirmed the need for a stricter definition of activity if

a per-activity threshold is introduced, to mitigate manipulations or misinterpretations. The Secretariat clarified that scope 3 categories consist of multiple individual scope 3 activities which cause emissions. A TWG member raised an opinion that defining activities more prescriptively than currently defined in the standard is outside of the viable scope of consideration for this TWG as the number of unique activities is unlimited.

- Several TWG members suggested that defining per-activity thresholds would be difficult if not impossible without being able to unambiguously define “activity”. A TWG member asked whether it was more practical to define thresholds at the category-level rather than per-activity. The Secretariat inquired if consideration of per-category threshold would be a better alternative.
- The Secretariat put forward a suggestion to have a cumulative threshold only, as the per-activity thresholds are difficult to define and per-category thresholds may require the accounting for 100% of scope 3 emissions within each included category, which could defeat the purpose. Several TWG members supported the suggestion to only have a cumulative threshold.
- A TWG member expressed an opinion that the denominator of the threshold definition should be the total inventory assessed using a hotspot analysis for all minimum boundary emissions (and excluding optional emissions).
- Several TWG members highlighted the connection between the activity exclusion threshold and the optionality of activities. Members put forth several examples showing that including currently optional activities in a denominator to calculate a threshold may result in large exclusions (e.g. sectors with significant indirect emissions during product use, which is optional, or various optional investment types or investment services). A TWG member noted that their opinion on an adequate threshold value depends on this conclusion regarding including optional activities in the denominator. The Secretariat acknowledged this connection and agreed that this would be considered. The Secretariat highlighted including currently optional activities and hotspot analysis will be discussed in upcoming meetings and suggested to come to a tentative recommendation in the current meeting, to be revised or confirmed in the future meetings. A TWG member supported this approach and emphasized the need to consider the order of operations when applying significance thresholds (e.g., should they be calculated before or after factoring in optionality emissions) in the upcoming discussion, suggesting that significance should not override optionality.
- A TWG member stated their preference for discussing the issue on the basis of tangible examples and recommended a more detailed analysis of the practice of threshold application. The Secretariat highlighted a lack of data for such detailed analysis and asked TWG members to indicate if they would be willing to provide such data and/or carry out exemplary calculations for tangible examples. Several members indicated their willingness to consider this request. Another TWG member suggested using anonymized CDP data for the analysis.
- The Secretariat gave a general methodological perspective, proposing that practitioners would apply the threshold by ranking activities from lowest to highest associated emissions and excluding the activities with the lowest associated emissions until reaching the 5% cumulative threshold.
- A TWG member supported the term “magnitude threshold”, as better reflecting the underlying concept. Several TWG members expressed the opinion that use of the term “significance threshold” may be confusing due to the already established use of this term for base year recalculation and restatements in the *Scope 3 Standard*. A TWG member highlighted the existence of multiple thresholds in the accounting practice and the need for terms that clearly imply their use case.
- The Secretariat suggested that the term “significance threshold” could be used as the blanket term, with distinctions made based on the use or purpose. For example, this could manifest in the terms “significance threshold for exclusions” or “significance threshold for boundary setting”, different from “significance threshold for base year recalculations” (which could also be set on a different value if necessary). Several TWG members supported this suggestion.
- A TWG member highlighted that the exclusion of categories should be transparently disclosed in the inventory, denoted not with a zero but as an excluded category. Another TWG member supported this idea.

#### Outcomes (e.g. recommendations, options)

- Secretariat to follow up with the TWG members with a request for evidence.

#### 4. De minimis

- The Secretariat presented the issue of de minimis, specifically, the question: “Should de minimis be defined in the Scope 3 Standard?”, options for consideration, and results from the poll held prior to the meeting.
- The group discussed the options (see slides 24-30).

##### Summary of discussion

- A TWG member summarized that, at its core, a solution should allow some flexibility for the exclusion of small elements of an inventory, allowing companies to focus on the most important sources of emissions, while supporting the goal of a complete inventory. The TWG member expressed strong support for combining a magnitude threshold with de minimis, and asserted that defining similar but separate thresholds would add complexity and increase confusion and inconsistent application.
- A TWG member highlighted that combining a magnitude threshold and de minimis is possible only if de minimis exclusions are quantified, while de minimis exclusions per se often rely on a qualitative judgement. The TWG member suggested that having de minimis with some clear qualitative, not quantitative, qualifiers and a requirement to disclose excluded activities, could support transparency in reporting.
- The Secretariat asked how such a qualitative qualifier could be defined and drew a parallel with LCA studies where exclusions rely on expert judgement, however, this expert judgement is often originally based on legacy, quantitative studies assessing insignificance. The TWG member agreed with the justification for exclusion through prior studies and literature and highlighted that this approach implies no quantification in the present. The TWG member emphasized that only a magnitude threshold should rely on quantification. Another TWG member agreed with this position, highlighting their preference for qualitative de minimis exclusions by applying previous experience and avoiding quantification to not spend resources on insignificant sources.
- Several TWG members expressed confusion regarding how de minimis could work without quantification(s). The Secretariat provided an interpretation that in application de minimis often refers to previous experience that involved quantification (own, peers, or from literature), however without the need to carry out quantification in the considered case.
- A TWG member stated that they would favor both a de minimis and a magnitude threshold(s), however, the member highlighted that the lack of data and data quality remains a big challenge. The member inquired how these data-related issues connect to possible exclusions in the application of thresholds. The Secretariat acknowledged these challenges and clarified that subgroup A of the Scope 3 TWG is currently considering data quality, including the possible disaggregated reporting of scope 3 emissions based on quality.
- A TWG member highlighted that, in the case of a combination of thresholds, the applicability of each should be clearly differentiated. The Secretariat acknowledged that the concepts of magnitude threshold and de minimis are often difficult to differentiate at a practical level. Another TWG member drew a parallel between de minimis and a per-activity magnitude threshold. The Secretariat acknowledged this similarity on a practical level and suggested that an umbrella threshold, that avoids theoretical methodological discussions, might be the most practical solution.
- A TWG member cited the American Institute of Certified Public Accountants (AICPA) standard which does not define de minimis but, rather, its equivalent: “clearly trivial”.(AICPA AT-C Section 2102):
  - “‘Clearly trivial’ is not another expression for ‘not material.’ Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality and will be matters that are clearly immateriality, whether taken individually or in the aggregate and whether judged by any criteria of size, nature, or circumstances.”
  - “When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.”
- A TWG member provided another analogy from the EU Corporate sustainability due diligence directive (CSDDD), which uses the term, “established business relationship”, to define the suppliers that the reporter must engage. While it is defined as a relationship that lasts in terms of intensity and duration, one-off and/or low-intensity purchases can be excluded. However, this doesn’t resolve a grey area regarding how duration and intensity can be defined and quantified.

- A TWG member highlighted that a non-quantified de minimis would not be auditable, which may pose a challenge given the upcoming regulatory changes requiring assurance corporate footprints, unless there is clear evidence proving non-significance for the assurance provider. While assurance is not currently required, upcoming (scheduled) requirements should be considered. Another TWG member stated that if an assurance provider saw a quantified exclusion, they would question the exclusion itself. The Secretariat referred to the discussion from Meeting #2 regarding a potential goal of preparers to limit the reporting of low-quality data.
- The Secretariat inquired if the auditability of emissions data should be a decisive parameter, as auditing is not currently required in the *Scope 3 Standard* and may not be affordable. The TWG member highlighted that while SMEs may not be directly impacted by mandatory disclosures, they are more likely to lack the expertise necessary for making qualified expert judgments on exclusions.
- A TWG member stated that the order of operations for a practitioner should be defined first, prior to the definition of particular thresholds, regardless of whether or not a combined approach is chosen.
- A TWG member stated that, in some cases, de minimis could be avoided through the generalization and aggregation of emissions source items in a hotspot analysis, bringing this requirement under the umbrella of a magnitude threshold-based exclusions. The TWG member highlighted that qualitative de minimis exclusions combined with magnitude thresholds may pose a challenge in implementation. The member questioned whether, if de minimis is excluded exclusions are relied on qualitative judgement (without quantification), how would a 5% magnitude threshold be affected. Further, would de minimis exclusions be included in the 5% or not. The TWG member interpreted de minimis as a basis to exclude emissions below a quantified or qualitative threshold, which cannot reasonably be expected to be included.
- A TWG member inquired if the TWG as a group agrees that there are some emissions that are so small that they can be excluded. Another TWG member expressed the opinion that the disclosure of emissions data, even with lower certainty, is more preferable than exclusion, and that de minimis exclusions should be periodically quantified to justify the exclusion. The TWG member noted that if emissions data is estimated with high uncertainty, then that should be disclosed.
- A TWG member stated that by 2050, all emissions within the value chain need to be addressed and reduced to as close to zero as possible. In view of that, a quantitative assessment and threshold would allow for closer monitoring of when previously excluded emissions gain importance as the baseline shifts, while qualitative qualification would keep those emissions excluded even as they become significant.
- A TWG member put forth an example where an emission source may not be possible to quantify as it is not registered (e.g., items purchased by an employee through an expense report). Another TWG member suggested referring to this as a “known exclusion”. A second TWG member called it “uncategorized spend”. A third TWG member suggested use of the spend-based method for such an example. A TWG member clarified that there might be examples where the spend-based method would not be applicable either. A TWG member stated that over time organizations should align their procurement strategies to enable better reporting.

#### Outcomes (e.g. recommendations, options)

- N/A

#### **5. Indicative polling**

- The Secretariat facilitated indicative polling for six questions (see below)

#### Summary of discussion

- For the question “Do you support introduction of a per-category threshold, additional to the cumulative threshold? A default threshold is to be 1% of the total scope 3. Reporting entities may use a different value if transparently justified and disclosed”, a TWG member inquired if a per-category threshold would imply that if a category exceeds a certain value, then a) no emissions of this category can be omitted, or b) the category in total cannot be excluded, although some sources or activities can potentially be excluded. The Secretariat confirmed interpretation b.



- Following the question “How the threshold should be named?”, the Secretariat asked if any of the members who responded “Other” could put forward an alternative suggestion. A TWG member suggested “exclusion threshold”.

#### Outcomes (e.g. recommendations, options)

- Question: “Do you support introduction of a cumulative threshold, expressed as 5% of the total scope 3 emissions?”
  - Yes: 75% (12 members)
  - No: 13% (2 members)
  - Abstain: 13% (2 members)
- Question: “Do you support the following option: Introduce a cumulative threshold, expressed as a percentage of the total scope 3 emissions. Default value of the threshold is 5%; reporting entities may use another value if transparently justified and disclosed.”
  - Yes: 50% (8 members)
  - No: 25% (4 members)
  - Abstain: 25% (4 members)
- Question: “Do you support introduction of a per-category threshold, additional to the cumulative threshold? A default threshold is to be 1% of the total scope 3. Reporting entities may use a different value if transparently justified and disclosed”
  - Yes: 33% (5 members)
  - No: 40% (6 members)
  - Abstain: 27% (4 members)
- Question: “How should categories excluded based on magnitude threshold be marked in reporting”
  - Should be marked as NR (not reported): 24% (4 members)
  - Shall be marked as NR: 59% (10 members)
  - Can be marked NR or 0: 12% (2 members)
  - Abstain: 6% (1 members)
- Question: “How the threshold should be named?”
  - Magnitude threshold: 44% (7 members)
  - Significance threshold: 31% (5 members)
  - Other: 19% (3 members)
  - Abstain: 6% (1 members)
- Question: “Do you support combining de minimis with the magnitude threshold, allowing for source-emissions exclusions as long as they are estimated not to exceed cumulatively 5%”
  - Yes: 65% (11 members)
  - No: 12% (2 members)
  - Abstain: 24% (4 members)

#### **6. Next steps**

- The Secretariat presented the next steps (see slide 39).

#### Summary of discussion

- N/A

#### Outcomes (e.g. recommendations, options)

- N/A

## **Summary of written submissions received prior to meeting**

No submissions received