Greenhouse Gas Protocol

Discussion Paper 3.2
Corporate Standard
Scope 3 requirement, questions #4-6
Chapter 4, "Setting Operational Boundaries"

WORKING DRAFT, DO NOT CITE

This discussion paper considers whether (and if so, how) differentiated scope 3 reporting requirements should be defined the *Corporate Standard*. This discussion paper is provided to Technical Working Group (TWG) members to contribute to the update process of the *Corporate Standard* with potential application or relevance for the *Scope 3 Standard* and *Scope 2 Guidance*.

This partial discussion paper is a follow-up to Corporate Standard Discussion Paper 3.1, which consolidated relevant information for the first three of six questions regarding a scope 3 reporting requirement:

1. Should there be a scope 3 reporting requirement in the Corporate Standard?
2. What should the scope 3 reporting requirement be?
3. Can the scope 3 reporting requirement be applied globally across all companies?

Subgroup 3 of the Corporate Standard TWG recommended that scope 3 be required in the *Corporate Standard* (question 1) and that a scope 3 requirement be defined as requiring all significant emissions (question 2). They also indicated a majority preference to explore a differentiated scope 3 requirement. This discussion paper therefore consolidates relevant information on the following questions:

4. What reporter type(s), if any, should different levels of scope 3 reporting be defined for?
5. If requirements are differentiated, how should the different scope 3 reporting requirement(s) be defined (by reporter type, if applicable)?
6. If requirements differ by reporter type, how should the different scope 3 reporting requirements be operationalized?

DISCLAIMER:

This document is a working document to be used as an input for a discussion within the Technical Working Group of the Corporate Standard revision process. The paper does not reflect the position of the Greenhouse Gas Protocol, nor WRI and WBCSD, nor members of the Technical Working Group. The statements are not designed to be final or complete. This working draft should not be referenced or cited.

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Introduction

Published in 2004, the *Corporate Standard* considers reporting scope 3 emissions to be optional. However, the *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (i.e., Scope 3 Standard, 2011) requires all scope 3 emissions to be reported. As part of the GHG Protocol Standards revision process, GHG Protocol is considering adopting a scope 3 requirement in the *Corporate Standard.*

The Corporate Standard Technical Working Group first considered the question of introducing a scope 3 reporting requirement in the standard. That question and the associated options were explored in Corporate Standard Discussion Paper 3.1. This discussion paper then considers whether (and if so, how) a scope 3 reporting requirement should be differentiated, such as by defining different scope 3 reporting requirements for specific reporter types.

At the same time, the *Scope 3 Standard* is undergoing revision through a separate Technical Working Group process. The Scope 3 workstream will consider, among other topics, what is needed for an accurate, complete, and transparent scope 3 inventory, including any revision to boundary setting requirements and guidance such as related to justifiable exclusions or addition of a significance threshold. The Corporate Standard workstream will consider questions on scope 3 accounting and reporting requirements in the *Corporate Standard* related to compliance, such as whether to define a scope 3 reporting requirement and whether there should be different reporting requirements for specific sectors or company sizes or a uniform requirement for all reporting entities.

The draft options under consideration for the Corporate Standard workstream (presented below) are organized under six overarching questions. The options presented are not fully comprehensive, but they contain the most viable options based on stakeholder survey feedback and research by the GHG Protocol Secretariat.

Scope of Work

The *Corporate Standard's Standard Development Plan* defines a list of topics to be considered during the standards revision process. This scope of work is subject to change during the revision process. The relevant item in the scope of work for this discussion paper is:

C.1. Revisit current operational boundary requirements in chapter 4 of the *Corporate Standard* to consider requiring scope 3 emissions reporting, such as through a comprehensive requirement across reporting organizations and scope 3 categories, or with a differentiated or phased approach based on criteria such as an organization's size or sector, the significance of a company's scope 3 emissions, or by scope 3 categories.

Current GHG Protocol Requirements and Guidance

Two of the GHG Protocol standards consider scope 3 reporting:

- *Corporate Standard*, Second Edition, released 2004

- *Corporate Value Chain (Scope 3) Standard*, released 2011

The two standards diverge on scope 3 reporting requirements. In the *Corporate Standard*, scope 3 reporting is optional. However in the *Scope 3 Standard*, scope 3 reporting is required. Companies may choose whether to report in conformance with the GHG Protocol *Corporate Standard* (i.e., scope 3 is optional), or to report in conformance with the GHG Protocol *Scope 3 Standard* (i.e., scope 3 is required; **Table 1**).

Both standards present a single set of requirements for all reporters. Neither standard differentiates reporting requirements by reporter type. This means that the *Scope 3 Standard* has a single requirement for all companies, which states that "Companies shall account for all scope 3 emissions and disclose and justify any exclusions."

Companies are given flexibility in reporting through justifiable exclusions, which allow companies to exclude emissions from their inventory, provided the exclusion is documented and justified.

Table 1. Current GHG Protocol requirements and guidance

Name	Scope 3 requirement
GHG Protocol Corporate Standard, 2004	**Scope 3 reporting is optional**: *"Scope 3 is an optional reporting category that allows for the treatment of all other indirect emissions."* -page 25, *Corporate Standard*
GHG Protocol Scope 3 Standard, 2011	**Scope 3 reporting is required**: *"Companies shall account for all scope 3 emissions and disclose and justify any exclusions.* *Companies shall account for emissions from each scope 3 category according to the minimum boundaries provided in table 5.4.* *Companies may include emissions from optional activities within each category.* *Companies may exclude scope 3 activities from the inventory, provided that any exclusion is disclosed and justified."* -page 59, *Scope 3 Standard* **Guidance on emissions inclusion:** *"Companies should follow the principles of relevance, completeness, accuracy, consistency, and transparency when deciding whether to exclude any activities from the scope 3 inventory.* *Companies should not exclude any activity that would compromise the relevance of the reported inventory. (See table 6.1)* *Companies should ensure that the scope 3 inventory appropriately reflects the GHG emissions of the company, and serves the decision-making needs of users, both internal and external to the company.* *In particular, companies should not exclude any activity that is expected to contribute significantly to the company's total scope 3 emissions."* -pages 59-60, *Scope 3 Standard*

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Requirements and Guidance from Other Frameworks and Programs

Mandatory disclosure programs, voluntary reporting programs, target-setting programs, and other standards for greenhouse gas emissions have guidance and requirements for scope 3 emissions (**Table 2**). Scope 3 reporting guidance for major relevant external programs was detailed in Corporate Standard Discussion Paper 3.1.

In this discussion paper, the focus is on examples of differentiated reporting requirements. The differentiated reporting requirements are not necessarily limited to scope 3 reporting. Instead, the intent is to identify and consider all cases where external programs differentiate reporting requirements for two reasons: First, to identify ways that a differentiated reporting requirement might be defined, and second, to inform to what extent any new requirement defined by GHG Protocol would be interoperable with external programs.

In the tables below, differentiated reporting requirements are organized under three themes: Company size and/or circumstances, sector-specific guidance, and grace/transition periods (**Table 2**).

The following programs, which differentiate reporting in some way, are described in Table 2 and described in more detail in the following sections:

- IFRS S2 Climate-related Disclosures
- ESRS E1 Climate Change
- US SEC Climate Disclosure Rule
- SBTi (Science Based Targets Initiative) Corporate Net Zero Standard
- CDP
- GRI Climate Change Exposure Draft

To the best of the Secretariat's knowledge, the following programs do not differentiate reporting requirements or are not yet finalized, and are therefore not included in the table below or in the following sections:

- California Corporate Climate Data Accountability Act (CA SB 253 and CA SB 219)
- ISO 14064-1:2018

The external programs each have unique ways of defining differentiated reporting requirements, suggesting that it would be challenging to design a differentiated requirement that would be fully interoperable with all external programs.

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Table 2. Examples of differentiated reporting requirements by company size, grace/transition periods, and sector-specific requirements or guidance.

Name	Type	Differentiated requirements for small companies	Grace/transition periods	Sector-specific requirements or guidance
IFRS S2 Climate-related Disclosures	Climate disclosure mandate	The IFRS proportionality approach provides reporters with flexibility based on their circumstances through the **concept of "reasonable and supportable information… without undue cost or effort.**" -ISSB-2023-C – Issued IFRS Standards IFRS also offers a clause on impracticability: "In those rare cases when an entity determines it is **impracticable** to estimate its Scope 3 greenhouse gas emissions, the entity shall disclose how it is managing its Scope 3 greenhouse gas emissions." -IFRS S2, Paragraph B57	IFRS provides transition relief, defined as a **1-year grace period, for reporting scope 3 emissions** for a reporter's first annual reporting period. No transition relief is available for reporting scope 1 and scope 2 emissions. -ISSB-2023-C – Issued IFRS Standards	Not applicable
ESRS E1 Climate Change	Climate disclosure mandate	ESRS E1: **Smaller companies** (fewer than 750 employees) are **given relief for scope 3 reporting for their first reporting year** -ESRS Appendix C		Not applicable
US SEC Climate Disclosure Rule	Climate disclosure mandate	**Reporters are differentiated by assets** into the following categories: Large Accelerated Filers (LAFs), Accelerated Filers (AFs), Smaller Reporting Companies (SRCs), and Emerging Growth Companies (EGCs). Only LAFs and AFs are required to report material scope 1 and scope 2 emissions; SRCs and EGCs are not. -SEC Release, page 29	**Phased approach based on reporter type**, where Large Accelerated Filers (LAFs) are required to report material scope 1 and scope 2 starting in the fiscal year beginning in 2026, and Accelerated Filers (AFs) are required to report material scope 1 and scope 2 emissions starting in the fiscal year beginning in 2028. -SEC Release, page 588	Not applicable

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SBTi (Science Based Targets Initiative) Corporate Net Zero Standard	Target-setting initiative	**SBTi SME target validation route**: Companies that meet specific criteria (including size, with sector exclusions) are **not required to set a target for scope 3**. These companies are still required to report scope 3. - SBTi SME Route	Not applicable	Sector-specific guidance is available
CDP	Voluntary reporting program	A **unique questionnaire** is available for small- and medium-sized enterprises (SMEs), and it provides streamlined and simplified questions. CDP defines which companies are eligible **based on head count and revenue.** - CDP SME questionnaire overview	Not applicable – All disclosure is voluntary	CDP's questionnaire **includes sector-specific questions** that are only applicable to reporters in the specified sectors. CDP defines 16 high-impact sectors.
GRI Climate Change Exposure Draft	GHG reporting standard	Not applicable	Not applicable	The **Sector Standards** provide information for organizations about their likely material topics. The organization uses the Sector Standards that apply to its sectors when determining its material topics and when determining what to report for each material topic." - GRI Climate Change Exposure Draft GRI plans to develop standards for 40 sectors, prioritizing those with highest impact. - GRI Sector Program

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IFRS: Proportionality approach, impracticability clause, and transition relief

IFRS S2 *Climate-related Disclosures* provides reporters with flexibility in three ways: The IFRS proportionality approach, cases where reporting is impracticable, and transition relief.

IFRS Proportionality: The IFRS S2 proportionality approach provides reporters with flexibility based on their circumstances (IFRS Proportionality Digest). The IFRS proportionality approach is qualitative in that it describes a range of circumstances that would qualify.

IFRS S2 defines two mechanisms for proportionality (**Table 3**):

- Concept of "reasonable and supportable information available […] without undue cost or effort"
- Concept of "commensurate with the skills, resources, and capabilities that are available to the company"

Table 3. Proportionality mechanisms in IFRS S1 and IFRS S2. *Source:* (IFRS Proportionality Digest)

Table 1—Proportionality mechanisms in IFRS S1 and IFRS S2

IFRS S1 and IFRS S2 requirements	Reasonable and supportable information available […] without undue cost or effort	Commensurate with the skills, resources and capabilities that are available to the company
Identification of sustainability-related risks and opportunities	✓	
Scope of the value chain	✓	
Anticipated financial effects	✓	✓
Approach to climate-related scenario analysis	✓	✓
Measurement of Scope 3 GHG emissions	✓	
Metrics in cross-industry metric categories (IFRS S2.29(b)-(d) and IFRS S2.30)	✓	

The first concept is fully defined as follows:

- "An entity is required to **use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort** when the entity selects the measurement approach, inputs and assumptions it uses in measuring Scope 3 greenhouse gas emissions." - B39 of IFRS S2

An example is provided for the concept of "…use all reasonable and supportable information… without undue cost or effort" to climate-related scenario analysis in paragraph B11 of IFRS S2 as follows:

- "For example, publicly available climate-related scenarios—from authoritative sources—that describe future trends and a range of pathways to plausible outcomes are considered to be available to the entity without undue cost or effort."

It is important to note that reporters are still expected to disclose all material information, including emissions. The proportionality concept gives flexibility in that reporters can estimate emissions rather than seek out more precise data in cases where "reasonable and supportable information" is not available "without undue cost or effort."

Of the two IFRS proportionality mechanisms, only the first ("reasonable and supportable information available … without undue cost or effort") is available for the measurement of scope 3 emissions. This is because IFRS sees the challenge of data availability as outweighing the challenge of relevant skills and expertise.

Impracticability clause: IFRS S2 provides guidance in cases where it is impracticable for an entity to measure their scope 3 emissions. If it is impracticable for an entity to estimate its scope 3 emissions, it must disclose how it is managing its scope 3 emissions.

> "This Standard includes the presumption that Scope 3 greenhouse gas emissions can be estimated reliably using secondary data and industry averages. In those rare cases when an entity determines it is **impracticable** to estimate its Scope 3 greenhouse gas emissions, the entity shall disclose how it is managing its Scope 3 greenhouse gas emissions. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so." -IFRS S2, Paragraph B57

Transition relief: IFRS also offers transition relief. IFRS defines "transition relief" as a 1-year grace period during which reporters do not need to disclose scope 3 emissions. The intent of the transition relief is to "…map their value chain… [and] enable them to prepare for reporting on other sustainability-related risks and opportunities that arise in their value chain" (IFRS - ISSB decides to prioritise climate-related disclosures to support initial application). IFRS S2 also provides transition relief for the first year in which companies are not required to do the following:

- "Provide disclosures about sustainability-related risks and opportunities beyond climate-related information;
- provide annual sustainability-related disclosures at the same time as the related financial statements;
- provide comparative information;
- disclose Scope 3 greenhouse gas emissions; and
- use the Greenhouse Gas Protocol to measure emissions, if they are currently using a different approach."

ESRS E1 Climate Change: Company size and grace period

ESRS first requires that all climate change disclosures be considered with the concept of "double materiality," which includes both impact materiality and financial materiality. If the climate change topic is deemed material, then reporters must disclose emissions from scopes 1, 2, and 3.

The Climate Change Rule in ESRS E1 provides 1 year of reporting relief for scope 3 emissions and total greenhouse gas emissions for all new reporters based on company size:

> "Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the datapoints on scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement." -ESRS E1 Appendix C

The implementation of ESRS E1 takes a phased approach, which is based on company size, turn-over, and assets (European Parliament 2022):

- January 1, 2024: Large companies (more than 500 employees) that are already subject to the non-financial reporting directive. Reports are due in 2025.
- January 1, 2025: Large companies (more than 250 employees and/or more than €40 million in turnover and/or more than €20 million in total assets) and not currently subject to the non-financial reporting directive. Reports are due in 2026.
- January 1, 2026: Small- and medium-sized enterprises (SMEs) and other undertakings have reports due in 2027, but SMEs can choose to opt out from reporting until 2028.

US SEC Climate Disclosure Rule: Company size and transition relief

The U.S. Securities and Exchange Commission (SEC) Rule makes reporting distinctions based on company size, whether the company is publicly traded, and whether the reporter is from an emerging growth company. The Rule also specifies a phased schedule for reporting based on company size.

The final version of the U.S. SEC Rule does not require the reporting of any scope 3 emissions. Mandatory disclosers are required to report their scope 1 and/or scope 2 emissions that are deemed material to investors. Only companies that are publicly traded in the U.S. are required to disclose emissions. Mandatory disclosers include Large Accelerated Filers and Accelerated Filers that are not Emerging Growth Companies or Smaller Reporting Companies. These reporter types are distinguished based on assets and are defined as follows:

- **Large Accelerated Filers (LAF).** An LAF is an issuer that has "…an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of $700 million [USD] or more…" They also must have been subject to specific provisions of the US Exchange Act, among other conditions. -SEC Release, page 29
- **Accelerated Filers (AF)**. An AF is an issuer that has "…an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of $75 million [USD] or more, but less than $700 million [USD]." They also must have been subject to specific provisions of the US Exchange Act, among other conditions. -SEC Release, page 29
- **Non-Accelerated Filers (NAF).** An NAF is any company that does not meet the definition for an LAF or an AF. -SEC Release, page 35
- **Smaller Reporting Companies (SRC)**. An SRC is "…an issuer that is not an investment company, an asset backed issuer …, or a majority-owned subsidiary of a parent that is not an SRC and that: (1) had a public float of less than $250 million; or (2) had annual revenues of

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less than $100 million and either: (i) no public float; or (ii) a public float of less than $700 million." -SEC Release, page 17
- **Emerging Growth Companies (EGC)**. An EGC is "…a registrant that had total annual gross revenue of less than $1.235 billion [USD] during its most recently completed fiscal year and has not met the specified conditions for no longer being considered an EGC" -SEC Release, page 17

The compliance dates for reporting greenhouse gas emissions are phased based on the reporter type as follows, relative to the rule going into effect in May 2024 (**Table 4**):

- Large Accelerated Filers (LAFs) are required to report greenhouse gas emissions starting in the fiscal year beginning in 2026
- Accelerated Filers (LAFs) are required to report greenhouse gas emissions starting in the fiscal year beginning in 2028
- SRCs, EGCs, and NAFs are not required to report any greenhouse gas emissions

Table 4. Compliance dates under the final U.S. SEC Rule by reporter type. The rule went into effect in March 2024. -SEC Release, page 588

Compliance Dates under the Final Rules[1]						
Registrant Type	**Disclosure and Financial Statement Effects Audit**		**GHG Emissions/Assurance**			**Electronic Tagging**
	All Reg. S-K and S-X disclosures, other than as noted in this table	*Item 1502(d)(2), Item 1502(e)(2), and Item 1504(c)(2)*	*Item 1505 (Scopes 1 and 2 GHG emissions)*	*Item 1506 - Limited Assurance*	*Item 1506 - Reasonable Assurance*	*Item 1508 - Inline XBRL tagging for subpart 1500*[2]
LAFs	FYB 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033	FYB 2026
AFs (other than SRCs and EGCs)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A	FYB 2026
SRCs, EGCs, and NAFs	FYB 2027	FYB 2028	N/A	N/A	N/A	FYB 2027
	[1] As used in this chart, "FYB" refers to any fiscal year beginning in the calendar year listed. [2] Financial statement disclosures under Article 14 will be required to be tagged in accordance with existing rules pertaining to the tagging of financial statements. *See* Rule 405(b)(1)(i) of Regulation S-T.					

The level of assurance is also different by filer type. LAFs are required to meet reasonable assurance, whereas AFs are only required to meet limited assurance.

CDP: SME Questionnaire and sector-specific questions

CDP, a voluntary program for the disclosure of climate and environmental data, offers a unique questionnaire for SMEs and sector-specific guidance. Because all CDP reporting is voluntary, transition relief is not applicable.

The CDP SME questionnaire is available for small- and medium-sized enterprises (SMEs), and it provides streamlined and simplified questions (CDP-SME-questionnaire-overview_-_2024.pdf). CDP defines which companies are eligible based on head count and annual revenue (**Table 5**).

Table 5. Eligibility to complete the CDP SME questionnaire based on company size

Headcount	Annual revenue	Eligibility
Less than 500 employees	Less than US$50 million	Eligible and recommended to complete the SME questionnaire
Less than 500 employees	Between US$50 million and US$250 million	Eligible to complete the SME questionnaire but recommended to complete the full corporate questionnaire
500 to 1,000 employees	Less than US$250 million	Eligible to complete the SME questionnaire but recommended to complete the full corporate questionnaire
More than 1,000 employees	More than US$250 million	Only eligible to complete the full corporate questionnaire

CDP also includes sector-specific questions for 16 sectors. The sector-specific questions focus on high-impact sectors, which are expected to release more greenhouse gas emissions. CDP allocates companies to sectors using its Activity Classification System (CDP-ACS), which focuses on revenue-deriving activities. CDP defined the following climate change sectors in 2023:

- Agriculture: Agriculture commodities; Food, beverage & tobacco; Paper & forestry; Energy: Coal; Electric utilities; Oil & gas; Financial: Financial services; Materials: Cement; Capital goods; Chemicals; Construction; Metals & mining; Real estate; Steel; Transport: Transport services; Transport OEMs

SBTi: SME route and sector-specific guidance

SBTi both distinguishes target-setting by company size (via its SME route) and by sector (via sector-specific guidance).

SBTi's SME route aims to promote compliance and ambition from the private sector, specifically for smaller companies that struggle to meet the traditional target validation route (SBTi Announces Updated SME Definition and Fees - Science Based Targets Initiative). The SME route is different from the traditional target validation route in the following ways:

- SMEs can skip the commitment stage
- SMEs are not required to set near-term targets for scope 3 emissions. However, SMEs still must commit to measuring and reducing scope 3 emissions.

The SBTi SME criteria defines SMEs based on multiple criteria, including size (e.g., by headcount, turnover, total assets), an emissions cap, and the exclusion of specific high-emitting sectors (**Table 6**).

Table 6. Criteria that a company must meet to qualify for the SBTi SME route. Source: SBTi Announces Updated SME Definition and Fees - Science Based Targets Initiative

Company must meet all the following:	Three or more of the following must be true:
• Company has <10,000 tCO2e across scope 1 and location-based scope 2 • Company is not classified as the following sectors: Financial Institution, Oil & Gas • Company is not required to set sector-specific criteria, as developed by SBTi • Company is not a subsidiary of a parent company whose combined businesses would be required to follow the traditional target validation route	• Employs <250 people • Annual turnover <50 million Euros • Total assets <25 million Euros • Not in a mandatory FLAG sector

SBTi's Corporate Net-Zero Standard is a cross-sector standard for setting emissions reduction targets. SBTi is currently developing a standard for the financial sector (Financial Institutions Net-Zero Standard), which will support target-setting in the unique circumstances for financial institutions.

All companies can use the Corporate Net-Zero Standard. However, SBTi is also drafting sector-specific guidance and tools for the following high-emission sectors:

- Aluminum; Apparel and footwear; Air transport sector; Buildings; Chemicals; Cement; Financial institutions; Forest, land, and agriculture (FLAG); Information and communication technology (ICT); Land transport; Maritime; Oil and gas; Power; Steel

The sector-specific guidance documents and tools provide specialized context and target-setting steps for each sector. For example, they provide alternative target-setting options for hard-to-decarbonize sectors, such as intensity-based science-based targets for the cement sector. The cross-sector guidance, in contrast, requires absolute reduction targets.

GRI Climate Change Exposure Draft

GRI is a greenhouse gas reporting standard program, and they provide three different types of standards:

- **Universal Standards**, which define the reporting requirements that organizations must adhere to in order to report in compliance with the GRI Standards. GRI has 3 Universal Standards: GRI 1: Foundation 2021; GRI 2: General Disclosures 2021; and GRI 3: Material Topics 2021.
- **Sector Standards**, which provide sector-specific information to help organizations identify material topics. These standards are in development for 40 sectors, which some already released.
- **Topic Standards**, which are only material for some reporters and specify guidance for topics like human rights and corruption.

The GRI Climate Change Exposure Draft says the following about the Sector Standards:

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> "The Sector Standards provide information for organizations about their likely material topics. The organization uses the Sector Standards that apply to its sectors when determining its material topics and when determining what to report for each material topic." - GRI Climate Change Exposure Draft

GRI plans to develop standards for 40 sectors, prioritizing those with highest impact. These standards cover a range of sustainability topics and offer additional brief guidance on sector-specific considerations for material greenhouse gas emissions. The following Sector Standards have been released to date:

- Oil and Gas (GRI 11); Coal (GRI 12); Agriculture, Aquaculture, and Fishing (GRI 13); Mining (GRI 14)

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Options Under Consideration

Because a scope 3 requirement could have multiple components that could be adopted in combination, the options proposed in this paper are organized below by several overarching questions (**Table 7, Table 8**). The questions are organized into two tiers:

- **Primary questions, #1-3**: These questions are the higher order questions that consider where there should be a scope 3 requirement. These questions were addressed in discussion paper 3.1.
- **Secondary questions, #4-6**: These questions consider how to define the details of a differentiated scope 3 requirement. These questions are addressed in this paper.

Questions #4-6 and the associated options are analyzed below in more detail.

Table 7. **Proposed primary questions** and options for considering a scope 3 requirement in the Corporate Standard. These questions were considered in discussion paper 3.1.

Primary questions	Options
1. Should there be a scope 3 reporting requirement in the *Corporate Standard*?	1A. No. Maintain *Corporate Standard* optionality for scope 3 reporting 1B. Yes. Adopt a scope 3 reporting requirement in the *Corporate Standard*
2. What should the scope 3 reporting requirement be?	2A. Companies shall account for **all** scope 3 emissions as defined in the *Scope 3 Standard* and disclose and justify any exclusions 2B. Companies shall account for all **relevant*** scope 3 emissions as defined in the *Scope 3 Standard* and disclose and justify any exclusions 2C. Companies shall account for all **significant**** scope 3 emissions as defined in the *Scope 3 Standard* and disclose and justify any exclusions 2D. Other scope 3 reporting requirement
3. Can the scope 3 reporting requirement be applied globally across all companies?	3A. Yes. All companies have the same scope 3 reporting requirement 3B. No. Different scope 3 reporting requirements should be defined

***Relevant** = GHG principle of relevance, i.e. "Ensure the GHG inventory appropriately reflects the GHG emissions of the company and serves the decision-making needs of users – both internal and external to the company" – *Corporate Standard*

****Significance** = Size criterion for reference, i.e., the emissions "…contribute significantly to the company's total anticipated scope 3 emissions" - *Scope 3 Standard*

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Table 8. **Proposed secondary questions** and options for considering the details of a differentiated scope 3 requirement in the *Corporate Standard*. These questions are addressed in this paper.

Secondary questions	Options
4. What reporter type(s), if any, should different levels of scope 3 reporting requirements be defined for?	4A. Differentiated scope 3 reporting levels should be defined and open to all reporter types 4B. Company size 4C. Company sector 4D. New reporters 4E. Geography 4F. Other/combination of criteria 4G. NA – This is not the role of GHG Protocol 4H. NA – Scope 3 reporting should not be differentiated
5. If requirements are differentiated, how should the different scope 3 reporting requirement(s) be defined (by reporter type, if applicable)?	5A. Make scope 3 optional for a defined reporter type 5B. Require relevant emissions, using a qualitative relevance assessment 5C. Increase the quantitative threshold for exclusion 5D. Require specific scope 3 categories only 5E. Make the data quality guidelines more flexible *[pending any updates from Scope 3 workstream]* 5F. Other scope 3 reporting requirement
6. If requirements differ by reporter type, how should the different scope 3 reporting requirements be operationalized? *[Note: NA if option 4A is selected]*	6A. Conformance levels, defined by reporter type 6B. 'Opt out' provisions, defined by reporter type

The questions and associated options for a scope 3 requirement can be organized as a decision tree or menu of options (**Figure 1, Figure 2**).

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Figure 1. Conceptual diagram of the proposed primary questions (1-3) and options for a scope 3 requirement in the *Corporate Standard*. These questions were addressed in discussion paper 3.1.

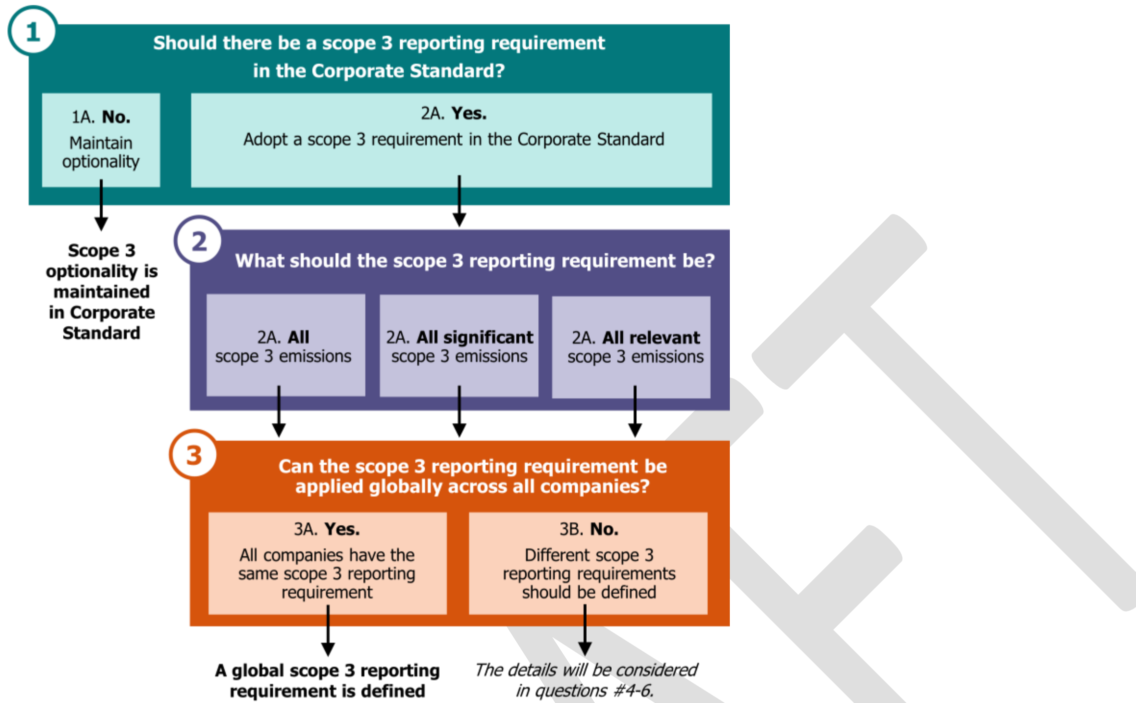
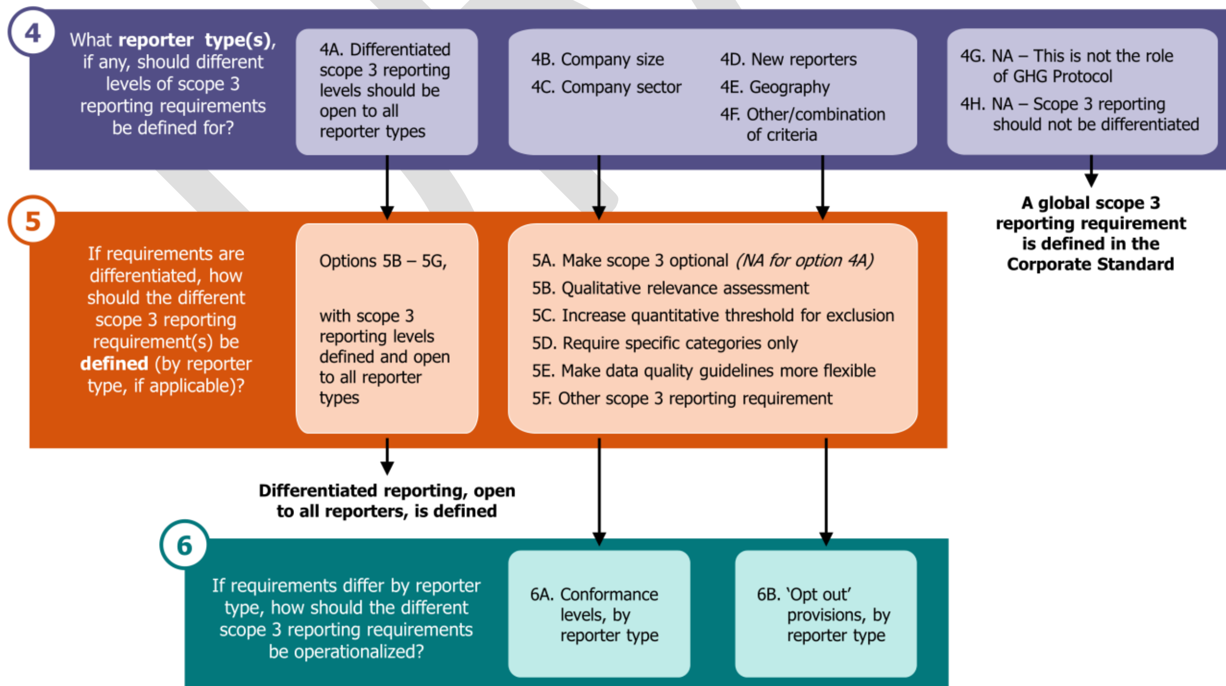


Figure 2. Conceptual diagram of the proposed secondary questions (4-6) and options for a differentiated scope 3 reporting requirement in the *Corporate Standard*. These questions and options are considered in this paper.



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Question 4: What reporter type(s), if any, should different levels of scope 3 reporting requirements be defined for?

This question considers which reporter type(s) and/or circumstances should qualify for different levels of conformance or scope 3 requirements. This question will only be considered with the following outcomes from earlier questions, presented in discussion paper 3.1:

- Option 1B: Adopt a scope 3 requirement in the Corporate Standard
- Option 3B: Different scope 3 reporting requirements should be defined

It is possible that differentiated scope 3 reporting requirements could be made available for reporters to choose from (i.e., option 4A). Alternatively, differentiated requirements could be defined for one or for multiple reporters. The options are described in more detail below; **Table 9** provides a brief definition of each option and reporter type.

Table 9. Proposed options for criteria that could be used to differentiate scope 3 reporting requirements and/or "opt out" provisions.

Option	Criteria	Defining the criteria
4A	**Differentiated scope 3 reporting levels should be open to all reporter types**	This option would allow reporters to choose which level of scope 3 reporting they would like to report to, provided that the reporting level is disclosed and justified
4B	**Company size**	• By type (e.g., SMEs) • Annual revenue • Number of employees
4C	**Company sector**	• Sectors as defined by GHG accounting organizations (e.g., CDP, SBTi, and ESRS in draft standard) • Economic taxonomy sector classifications for the financial community (e.g., GICS, ICB, NAICS)
4D	**New reporters**	• Newly formed entities • Entities reporting for the first time
4E	**Geography**	• Reporters/suppliers in low- and middle-income countries • Reporters/suppliers in the global south
4F	**Other/combination of criteria**	• Such as by organization type, category, data quality, or companies for whom scope 3 is below a certain percentage of total emissions
4G	**NA – This is not the role of GHG Protocol**	• This option would leave differentiation to external programs
4H	**NA – Scope 3 reporting should not be differentiated**	• This option would confirm that a single scope 3 reporting requirement applies to all companies

These options are described below and are then assessed according to the GHG Protocol decision-making criteria in **Table 10**. Option 4H (other/combination of criteria) is not included in the analysis because it is not clearly defined, as are the options that do not differentiate reporting (i.e., options 4G and 4H).

Option 4A: Differentiated scope 3 reporting levels should be open to all reporter types

This option would allow for less stringent scope 3 reporting requirements for all companies. The levels of scope 3 reporting (defined in question 5 and to be discussed in the TWG) would be made available to all reporters.

Defining reporting levels: The specifics of the reporting levels would need to be clearly defined and organized for transparency. Examples include the following:

- **Rating/tiered system**: This approach could have multiple defined levels of conformance, where the top level has the best and most stringent practices, and the lowest level meets the basic requirements of reporting but may have gaps or lower quality data. The conformance levels could be aligned with common LEED ratings (i.e., platinum, gold, silver, bronze), or given tier ratings (e.g., tier 1, tier 2, tier 3).
- **Category delineation**: Conformance levels could indicate which categories a reporter is including. For example, a reporter might choose "upstream only" conformance (i.e., categories #1-8), "all but investments" (i.e., categories #1-14), or "complete reporting" (i.e., categories #1-15).

Disclosures: This option could include language clarifying what reporters must disclose to use a less stringent scope 3 reporting or in what conditions it might be appropriate to use a less stringent level of reporting.

If this option is selected, then question 6 (how should the different scope 3 reporting requirements be operationalized?) is not applicable because the approach would already be determined (i.e., levels of reporting). Instead, the analysis would conclude after reporting requirements and levels are defined in question 5.

Option 4B: Company size

This option would allow for less stringent scope 3 reporting requirements for smaller companies.

Defining company size: Small companies would need to be clearly defined. Options for defining small companies include:

- **By defined categories**, which have different thresholds by country. These terms are used by international organizations like the World Bank, OECD, the EU, and the UN.

  - SMEs (small- and medium-sized enterprises)
  - Micro enterprises
- **By monetary value** (e.g., revenue, market capitalization, assets)
- **By number of employees**
- **By a combination of attributes**

External programs: Other GHG programs already offer less stringent requirements for small companies. Examples include:

- ESRS E1: Smaller companies (fewer than 750 employees) are given relief for scope 3 reporting for their first reporting year (ESRS Appendix C).
- SBTi SME route: Companies that meet specific criteria (including size, with sector exclusions) are not required to set a target for scope 3.
- CDP: Unique questionnaire with streamlined and simplified questions available for SMEs.

Defining a less stringent scope 3 reporting requirement: The specific aspects of scope 3 reporting that would be affected for small companies would be determined in question 5. Options that are particularly relevant to small companies include:

- **Require select categories**, such as upstream only or those required by the US EPA guide for small businesses (i.e., employee business travel, employee commuting, product transport, waste).
- **Less stringent thresholds**, such as a higher quantitative exclusion threshold or a lower data quality requirement. Note: This is only relevant if quantitative thresholds and data quality requirements are defined during the Scope 3 TWG revision process.

Potential for underreporting: On a per company basis, small companies typically have lower emissions than larger companies. However, small companies make up a large proportion of total global companies, meaning that their total emissions could be substantial. By some estimates, SMEs (small- and medium-sized enterprises) make up 70% of global employment and 90% of businesses in many countries (International Labor Organization, SME Climate Hub). Due to efficiencies in scale, small companies also tend to be less efficient from an energy and resource perspective. This means that their emissions per unit of resource use or production might be higher than comparable large companies.

Option 4C: Company sector

This option would define unique scope 3 reporting requirements by sector.

Significant scope 3 categories vary by sector: A CDP analysis of scope 3 reporting by sector found that scope 3 emissions are often concentrated in just a few scope 3 categories for some sectors (CDP-technical-note-scope-3-relevance-by-sector.pdf). For example, category 1 (purchased goods and services) makes up 63% of the total emissions for companies in the Agricultural Commodities sector. Category 11 (use of sold products) makes up 90% of total emissions in the Capital Goods sector. However, the picture is less clear in sectors like Cement, where scope 3 reporting is already minimal, and Chemicals, where emissions are more distributed across many scope 3 categories. Examples of several sectors and percent emissions by scope 3 categories can be found in **Appendix A**.

Defining company sectors: Company sectors would need to be clearly defined, using either an established framework or new definitions. Some GHG programs define sectors (e.g., CDP, SBTi, and ESRS in draft standard). There are also many economic taxonomy sector classifications for the financial community that could be considered (e.g., GICS, ICB, NAICS). A more detailed list of sector classification options is provided in **Appendix A**.

Defining scope 3 reporting by sector: The specific aspects of scope 3 reporting by sector would be determined in question 6. Options that could be most applicable for reporting by sector include:

- **By significant categories**: Based on data sets that analyze average emissions by category and sector (e.g., CDP Technical Note: Relevance of Scope 3 Categories by Sector), significant categories could be identified and made required for reporters in that sector. For example, companies in the CDP sector of capital goods might be required to only report categories 1 and 11 (see **Appendix A** for more examples).
- **Develop GHG Protocol sector-specific guidance**: In the future, GHG Protocol could draft sector-specific greenhouse gas reporting guidance and requirements. SBTi and GRI are taking a similar approach by offering both cross-sector standards and sector-specific standards.
- **Defer to sector-specific guidance**: As applicable, companies could be required to only report on scope 3 categories required by guidance in their sector. For example, financial institutions could be required to adhere to PCAF standards.

Considering the role of GHG Protocol: An important question to consider is whether defining sector-specific reporting requirements falls within the purview of the GHG Protocol. In general, the GHG Protocol is a sector-agnostic standard that provides guidance for all companies. Industry groups and trade groups sometimes develop additional sector-specific guidance to provide more specific reporting information relevant to their sector. One possible outcome of this discussion could be the agreement that sector-specific guidance is appropriate, but that GHG Protocol as a cross-sector standard setter is not the appropriate body to consider sector-specific guidance.

Option 4D: New reporters

This option would give new reporters and newly formed companies a reporting grace period, which is also sometimes referred to as a transition period. A reduced reporting burden would give new reporters time to carefully set their boundaries and methodology to establish accurate and consistent reporting over time.

External programs: Several GHG disclosure rules and programs already provide options for a grace period (**Table 2**). See **Appendix B** for more details.

- IFRS S2, transition relief for all companies: "In the first annual reporting period… an entity is not required to disclose its Scope 3 greenhouse gas emissions" (IFRS S2, C4(b))
- ESRS E1, reporting relief for small companies: Smaller companies (fewer than 750 employees) have scope 3 reporting relief for their first reporting year (ESRS 1, **Appendix B**)

Defining new reporters: Eligible companies would need to be determined. Examples include:

- First-time reporters
- Newly formed companies

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- Companies that have undergone significant structural changes

Defining the specifics: With this option, the following would need to be defined:

- **Time period**: The length of the grace period or phased in approach would need to be defined. Other programs typically offer relief for one year.
- **Reporting requirements**: The specific requirements would need to be defined. One option could be to only require scopes 1 and 2, with scope 3 reporting optional until the grace period has ended.

Considering GHG Protocol's role: Since GHG Protocol is not a reporting program, it should be considered whether GHG Protocol is the right entity to set guidance for reporting grace periods or phase in reporting. Such an approach could also hinder interoperability with other programs that have defined their own grace period.

Option 4E: Geography

This option would define different reporting requirements or for less-advanced reporters and suppliers, such as those in low- and middle-income countries.

Defining the specifics: With this option, the following would need to be defined:

- **Which reporters would qualify**: The specific countries, regions, and/or thresholds would need to be identified. For example, a threshold could be based on GDP.
- **Reporting requirements**: The distinct reporting requirements or opt out provision would also need to be considered.

Option 4F: Other/combination of criteria

This option would consider other criteria to define differentiated scope 3 reporting requirements and "opt out" provisions.

Examples of other criteria that could be considered include:

- **By organization type**, such as defining different reporting requirements for privately held companies, publicly traded companies, NGOs, and other organization types.
- **By category**, with a spend-based hotspot analysis to identify significant categories.
- **By data quality**, such as requiring certain levels of data quality requirements for defined categories/sources.
- **For reporters for whom scope 3 is below a certain threshold**, similar to the SBTi target-setting thresholds. For example, a company might only be required to report scope 3 if scope 3 emissions exceed a certain threshold (e.g., 67%) of their total scope 1+2+3 emissions.
- **Others?**

Other criteria could be identified during the TWG process. Pros and cons vary by specific criteria.

Option 4G: NA – This is not the role of GHG Protocol

This option would leave any differentiation of scope 3 reporting to external programs. Instead, the *Corporate Standard* would define a single global scope 3 reporting requirement for all reporters. Reporters would still be able to exclude emissions from their inventory, provided the exclusion is disclosed and justified. The expectation would then be that external programs define differentiated reporting requirements as needed for their specific context, geography, audience, or other factors.

The greenhouse gas accounting and reporting standard ISO 14064-1:2018 does not differentiate reporting requirements. ISO 14064-1:2018 has a single set of reporting requirements for all reporters. They refer reporters to sector-specific guidance generally, but they do not give any specific guidance for sectors. They also do not define reporting timelines. One specific case where an exception is made for reporters based on geography is for scope 2 reporting, in which an exception is made for small island developing states (SIDS) for the market-based approach due to a lack of grid inter-connectivity.

The greenhouse gas reporting standard GRI also does not differentiate on the basis of company size or provide a grace period However, GRI does issue Sector Standards. These Sector Standards provide additional guidance for high impact sectors, such as oil and gas (GRI 11), coal (GRI 12), and mining (GRI 14). GRI ultimately plans to release 40 Sector Standards.

The external programs that do differentiate reporting requirements are mandatory disclosure rules (IFRS S2, ESRS E1, US SEC), target-setting standards (SBTi), and voluntary disclosure programs (CDP).

This distinction between requirements in reporting standards versus regulatory disclosure programs suggests that disclosure programs may be better suited to defining differentiated requirements as needed, whereas standards can focus on defining the best practice for compliance.

Option 4H: NA – Scope 3 reporting should not be differentiated

This option would confirm that a single scope 3 reporting requirement applies to all companies. The *Corporate Standard* would instead define a single global scope 3 reporting requirement for all reporters. Reporters would still be able to exclude emissions from their inventory, provided the exclusion is disclosed and justified. Details for the analysis of this option can be found in Corporate Standard Discussion Paper 3.1, Question 3, Option 3A.

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Table 10. Decision-making criteria for question 4: What reporter type(s), if any, should different levels of scope 3 reporting requirements be defined for? Options and criteria are assessed with pros and cons. The degree to which an option is aligned with each criterion is qualitatively assessed and identified through a green (most aligned), yellow (mixed alignment), orange (least aligned) ranking system. Criteria are marked 'NA' if not applicable for a given topic.

Note: The analysis does not include the open option for other/combination of criteria (option 4F) nor the two options that say GHG Protocol should not differentiate scope 3 reporting (options 4G, 4H).

Criteria	Option 4A: NA – Should be open to all reporter types	Option 4B: Company size	Option 4C: Company sector	Option 4D: New reporters	Option 4E: Geography
Scientific integrity	NA	NA	NA	NA	NA
GHG Protocol accounting and reporting principles	Pros: • Consistency with historic reporting Cons: • **Significantly hinders completeness and relevance** because any company could choose less stringent reporting	Pros: • Transparency and accuracy (for the emissions reported) Cons: • Hinders completeness, relevance, and consistency	Pros: • Transparency by sector and accuracy (for the emissions reported) Cons: • **Significantly hinders completeness and relevance** due to potential sector loopholes • Hinders consistency	Pros: • Transparency and accuracy (for the emissions reported) Cons: • Hinders completeness, relevance, and consistency **during grace/transition period only**	Pros: • Transparency and accuracy (for the emissions reported) Cons: • Hinders completeness, relevance, and consistency

Support decision-making that drives ambitious global climate action	Pros: • More resources for scope 1 and scope 2 action Cons: • Action will not be informed by complete emissions profile • Potential for significant underreporting, which would cause missed reduction opportunities	Pros: • More resources for scope 1 and scope 2 action Cons: • Impact to supply chain emissions would be low for small companies due to the lower magnitude of emissions • Some emissions reduction opportunities could be missed	Pros: • Prioritizes categories that are usually the largest for each sector • More resources for scope 1 and scope 2 action Cons: • Potential for significant underreporting, which would cause **missed reduction opportunities**	Pros: • More resources for scope 1 and scope 2 action • Time to carefully set good boundaries for accurate and consistent reporting Cons: • Would delay reporting of some emissions • Could open loopholes if established companies are reconfigured and become eligible to defer reporting	Pros: • More resources for scope 1 and scope 2 action Cons: • Some emissions reductions opportunities could be missed
Support programs based on GHG Protocol and uses of GHG data	Pros: • NA Cons: • **Significantly reduced interoperability** with external programs since any company would be able to apply any set of requirements • **Low user support** in interpretation of cross-company considerations • Hinders completeness for companies downstream and upstream of the reporter	Pros: • Reduced reporting burden could promote more reporting from small companies Cons: • Reduced comparability • Reduced interoperability, especially with programs that require complete scope 3 and/or define different small company requirements • Low user support in interpretation of	Pros • Improved comparability within sectors Cons: • Significantly reduced comparability across sectors • Reduced interoperability with most external programs, especially those that require complete scope 3 and/or their own sector-specific requirements (e.g., SBTI) • Low user support in interpretation of	Pros: • Interoperable with programs that allow a grace/transition period, depending on how it is defined (e.g., IFRS, ESRS) Cons: • Reduced comparability during transition/grace period • Reduced interoperability with programs without a grace/transition period • Low user support in interpretation of cross-company considerations	Pros: • NA Cons: • Reduced interoperability with most external programs, which do not differentiate by geography • Low user support in interpretation of cross-company considerations • Hinders completeness for companies downstream and upstream of the reporter

		cross-company considerations • Hinders completeness for companies downstream and upstream of the reporter	cross-company considerations • Hinders completeness for companies downstream and upstream of the reporter	• Hinders completeness for companies downstream and upstream of the reporter	
Feasibility to implement	Pros: • Most accessible for reporters since they could choose their reporting level Cons: • Could create internal confusion if reporter changes levels	Pros: • **More accessible** for small companies	Pros: • More accessible for some reporters Cons: • Difficult to implement if there are several contradicting sector guidance	Pros: • **More accessible** for all new reporters • Could reduce barrier to start calculating emissions	Pros: • **More accessible** for some reporters Cons: • Defining geographies could open loopholes and create confusion

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Question 5: If requirements are differentiated, how should the different scope 3 reporting requirement(s) be defined (by reporter type, if applicable)?

This question considers how differentiated scope 3 reporting requirements should be defined. This question will only be considered with the following outcomes from earlier questions:

- Option 1B: Adopt a scope 3 reporting requirement in the Corporate Standard
- Option 3B: Different scope 3 reporting requirements should be defined

This question has two components:

- How should the differentiated scope 3 reporting requirement be defined?
- Should the differentiated scope 3 reporting requirement be temporary or permanent?

Because these two questions are interrelated, they are presented and discussed together.

How should the differentiated scope 3 reporting requirement be defined?

Six proposed options for less stringent scope 3 reporting are described in **Table 11**. This section assumes that only a less stringent scope 3 reporting requirement should be defined. It takes the scope 3 reporting requirement recommended by Subgroup 3 for question 2 (i.e., "Companies shall account for all significant scope 3 emissions…") as a baseline, and it considers more accessible reporting options in cases where the baseline might not be feasible. The TWG could also consider more stringent reporting requirements for specific reporters.

Table 11. Proposed options for defining different scope 3 reporting requirements and/or "opt out" provisions.

Option	Criteria	Defining the criteria	Context from TWG outcomes to date
5A	**Make scope 3 optional** *(NA for option 4A)*	For specific reporters, the scope 3 requirement could be changed to a recommendation (e.g., companies "should" disclose scope 3)	**Only applicable for specific defined reporters**, since Subgroup 3 recommended that scope 3 be required *NA for options 4A and 6A*
5B	Require relevant emissions, using a **qualitative relevance assessment**	Specific reporters would be required to assess their scope 3 emissions against the relevance criteria. Quantitative hotspotting would not be required.	Subgroup 3 recommended that "significant" emissions be required. "Size" (i.e., significance by magnitude) is one of the relevance criteria.
5C	Increase the **quantitative threshold** for exclusion	A less stringent (i.e., higher) quantitative exclusion threshold could be defined to allow companies to exclude more emissions	Subgroup 3 preliminary recommendation is a 5% exclusion threshold, relative to total scope 3. **The threshold in this option would therefore be greater than 5%.**

5D	Require **specific scope 3 categories** only	Only require upstream scope 3 categories (e.g., category 1 only, upstream categories only, common categories only)	Not yet discussed
5E	Make **data quality** guidelines more flexible	Define less stringent data quality guidelines, pending outcomes from the Scope 3 TWG	The Scope 3 Technical Working Group is considering data quality guidelines/requirements.
5F	**Other** scope 3 reporting requirement	Any other scope 3 reporting requirement could be considered here.	NA

The options presented in **Table 11** will be further developed after it is determined whether scope 3 reporting requirements will be differentiated, and if so, whether requirements will be defined by reporter type (i.e., question 4). The relevant scope 3 reporting requirement options and their details vary based on reporter type. For example, different specific categories might be relevant for sector-specific reporting versus company size.

Should the differentiated scope 3 reporting requirement be temporary or permanent?

A differentiated scope 3 reporting pathway could either be a temporary or permanent option for the reporter types specified in question 4.

Temporary differentiated scope 3 reporting requirement:

A temporary pathway would give specified companies the option to report to a less stringent scope 3 reporting requirement for a defined period of time. A temporary pathway could be defined two different ways:

- **By reporter**: With this approach, all new reporters that also match the reporter type defined in question 4 would be eligible for the less stringent reporting pathway for a defined number of years (e.g., for their first 3 years of reporting).
- **By a defined year**: Specified reporters would be eligible for the less stringent reporting pathway until a set year (e.g., until 2030).

In both cases, the details would need to be defined.

Permanent differentiated scope 3 reporting requirement:

A permanent option would allow specified reporters to report to a less stringent reporting pathway indefinitely. No time constraints would be set. The only requirement would be that the company matches the reporter type defined in question 4.

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Question 6: If requirements differ by reporter type, how should the different scope 3 reporting requirements be operationalized?

This question considers two approaches that could be used to operationalize differentiated scope 3 requirements by reporter type. The two proposed options are:

- Option 6A: Conformance levels, defined by reporter type
- Option 6B: 'Opt out' provisions, defined by reporter type

This question is not applicable if option 4A (Differentiated scope 3 reporting levels should be open to all reporter types) is selected.

These options are described below and are then assessed according to the GHG Protocol decision-making criteria in **Table 12**.

Option 6A: Conformance levels, defined by reporter type

This option would adopt formally defined conformance levels for scope 3 reporting. This option would limit formally defined conformance levels for scope 3 reporting to specific reporter type(s).

Precedent in GHG Protocol: This approach has precedent in GHG Protocol: There are currently two levels of conformance for scope 3 reporting. Reporters can conform with the *Corporate Standard* (scope 3 emissions are optional), or they can conform with the *Scope 3 Standard* (scope 3 emissions are required). However, the approach has created some confusion, as reporters will often just indicate that they are conforming with the GHG Protocol (and not necessarily which specific Standard).

Defining reporter types: The reporters eligible for each conformance level would be defined in question 4. This option would aim to limit less stringent conformance levels to specific reporters to avoid reporting loopholes.

Defining conformance levels: The specific scope 3 reporting requirements for conformance levels would be determined in question 5. Examples of conformance include:

- **Maintain current GHG Protocol conformance options**: The two conformance levels currently available to reporters (scope 3 optional in the *Corporate Standard* and scope 3 required in the *Scope 3 Standard*) could be maintained, with specifications made about which reporters are eligible for which conformance level.
- **Rating/tiered system**: This approach could have multiple defined levels of conformance, where the top level has the best and most stringent practices, and the lowest level meets the basic requirements of reporting but may have gaps or lower quality data. The conformance levels could be aligned with common LEED ratings (i.e., platinum, gold, silver, bronze), or given tier ratings (e.g., tier 1, tier 2, tier 3).

- **Specific categories required**: Conformance levels could indicate which categories a reporter is including. For example, a reporter might choose "upstream only" conformance (i.e., categories #1-8), "all but investments" (i.e., categories #1-14), or "complete reporting" (i.e., categories #1-15).

Option 6B: 'Opt out' provisions, defined by reporter type

This approach would maintain a global scope 3 requirement. However, it would allow an 'opt out' provision only available to specific reporter types.

Defining reporter types: The reporters eligible for 'opt out' provisions would be defined in question 4. This option would aim to limit 'opt out' provisions to specific reporters to avoid reporting loopholes.

Defining 'opt out' provisions: The specific 'opt out' provisions for scope 3 reporting would be defined in question 5.

Decision-making criteria: Question 6

Table 12. Decision-making criteria for question 6: If requirements differ by reporter type, how should the different scope 3 reporting requirements be operationalized? Options and criteria are assessed with pros and cons. The degree to which an option is aligned with each criterion is qualitatively assessed and identified through a green (most aligned), yellow (mixed alignment), orange (least aligned) ranking system. Criteria are marked 'NA' if not applicable for a given topic.

Criteria	Option 6A: Conformance levels, by reporter type	Option 6B: All companies have the same requirements, but with "opt out" provisions
Scientific integrity	NA	NA
GHG Protocol accounting and reporting principles	Pros: • **Somewhat promotes completeness** (within the defined boundary), **transparency** (with clearly defined levels), accuracy (for the emissions reported) Cons: • Could hinder relevance, depending on how the conformance levels are defined • Consistency (if reporter's requirements change)	Pros: • **Completeness** (if more companies report to a higher bar), **transparency**, accuracy (for the emissions reported) Cons: • Could hinder relevance, depending on how the 'opt out' provisions are defined • Consistency (if reporter's 'opt out' changes year to year)

Support decision-making that drives ambitious global climate action	Pros: • Reduced reporting burden could allow more progress on scope 1 and 2 action Cons: • Could result in underreporting • Missing relevant emissions would impact planning and implementation	Pros: • Reduced reporting burden could allow more progress on scope 1 and 2 action Cons: • Could result in underreporting • Missing relevant emissions would impact planning and implementation
Support programs based on GHG Protocol and uses of GHG data	Pros: • More prescriptive requirements could enable some comparability Cons: • Reduced interoperability with some programs/standards due to different requirements • Impedes interpretation and full context of a company's impacts for intra- and inter-company considerations and decision-making	Pros • Interoperable with most programs/standards since there would be a single global requirement Cons: • 'Opt out' provisions could be applied unevenly, impeding comparability • Impedes interpretation and full context of a company's impacts for intra- and inter-company considerations and decision-making
Feasibility to implement	Pros: • More accessible for some reporters	Pros: • More accessible for some reporters, who could opt out of some reporting with justification

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Appendix A: Reporting requirements by sector

Relevant for question 4: If requirements are differentiated, how should the different scope 3 reporting requirement(s) be defined (by reporter type, if applicable)?, Option 4C: Company sector

Defining sectors

How sectors are defined would first need to be determined. Options for defining sectors could include:

- **CDP sectors**. CDP defines sixteen sectors for reporting. CDP allocates companies to a specific sector based on their operations and activities using the CDP-ACS Allocation Guide. The CDP sectors are the following:
    - Agricultural commodities; Capital goods; Cement; Chemicals; Coal; Construction; Electric Utilities; Financial Services; Food, Beverage, & Tobacco; Metals & Mining; Oil & Gas; Paper & Forestry; Real Estate; Steel; Transport OEMS; and Transport Services.
- **Economic taxonomy for the financial community**. There are many industrial taxonomies that classify companies into sectors to facilitate financial analysis and interpretation. These systems classify companies based on their function, their products, and/or their revenue. One of these industrial taxonomies could be applied to greenhouse gas accounting, especially considering the interest in alignment with financial accounting being explored during the Standards revision process. Major industrial taxonomies include:
    - **Global Industry Classification Standard (GICS)**. This industrial taxonomy is made up of 11 sectors and was defined by MSCI and Standard & Poor's for the financial community (MSCI 2024). The sector classification is based on company revenue. The following are the GICS sectors:
        - Energy; Materials; Industrials; Consumer Discretionary; Consumer Staples; Health Care; Financials; Information Technology; Communication Services; Utilities; and Real Estate.
    - **Industrial Classification Benchmark (ICB)**. Developed by FTSE, this framework defines 11 industries, assigning companies by market value. The 11 industries are:
        - Technology; Telecommunications; Health Care; Financials; Real Estate; Consumer Discretionary; Consumer Staples; Industrials; Basic Materials; Energy; and Utilities.
    - **North American Industry Classification System (NAICS)**. This product-based classification system defines 20 sectors, including the following:
        - Agriculture, Forestry, Fishing, and Hunting; Mining, Quarrying, and Oil and Gas Extraction; Utilities; Construction; Manufacturing; Wholesale Trade; Retail Trade; Transportation and Warehousing; Information, and more (see the US Census 2022 NAICS for the full details).
    - And more, such as: Australian and New Zealand Standard Industrial Classification (ANZSIC); Bloomberg Industry Classification Standard (BICS), Hang Seng Industry Classification System (HSICS), Industry Building Blocks (IBBICS), and Statistical Classification of Economic Activities in the European Community (NACE).

Scope 3 emissions by sector

One option for differentiated reporting by sector is to define required categories by sector. This approach would aim to require the most relevant significant categories without requiring each company to complete its own relevance or significance assessment.

CDP has analyzed scope 3 reporting and identified the most significant categories by sector (**Table A1**, CDP-technical-note-scope-3-relevance-by-sector.pdf). However, this data set should not be used alone because it only shows what has been reported to date – not necessarily what is relevant. In its questionnaire, CDP also asks which categories are relevant but not yet calculated, and this data set was also organized by sector. Examples of this self-reported relevance assessment by sector are shown below for the Agricultural Commodities sector and the Capital Goods sector (**Figure A1**).

Table A1. Examples of the average contribution of emissions by category and sector. Source: CDP-technical-note-scope-3-relevance-by-sector.pdf

Sector	Top scope 3 categories	% Scope 3 (of results reported)
AC: Agricultural Commodities	Scope 1 Scope 2 **Category 1: Purchased goods and services** Category 10: Processing of sold products Category 11: Use of sold products	7% 1% **63%** 8% 7%
CG: Capital Goods	Scope 1 Scope 2 **Category 11: Use of sold products** Category 1: Purchased goods and services	0.5% 1% **90%** 6%
CE: Cement	**Scope 1** Scope 2 Category 1: Purchased goods and services Category 3: Fuel-and-energy-related activities Category 4: Upstream transportation and distribution Category 9: Downstream transportation and distribution	**79%** 4% 6% 3% 3% 3%
CH: Chemicals	Scope 1 Scope 2 **Category 1: Purchased goods and services** Category 11: Use of sold products Category 12: End of life treatment of sold products Category 4: Upstream transportation and distribution Category 10: Processing of sold products Category 3: Fuel-and-energy-related activities Category 15: Investments	17% 7% **44%** 14% 6% 3% 3% 2% 1%
CO: Coal	Scope 1 Scope 2 **Category 11: Use of sold products**	33% 2% **64%**

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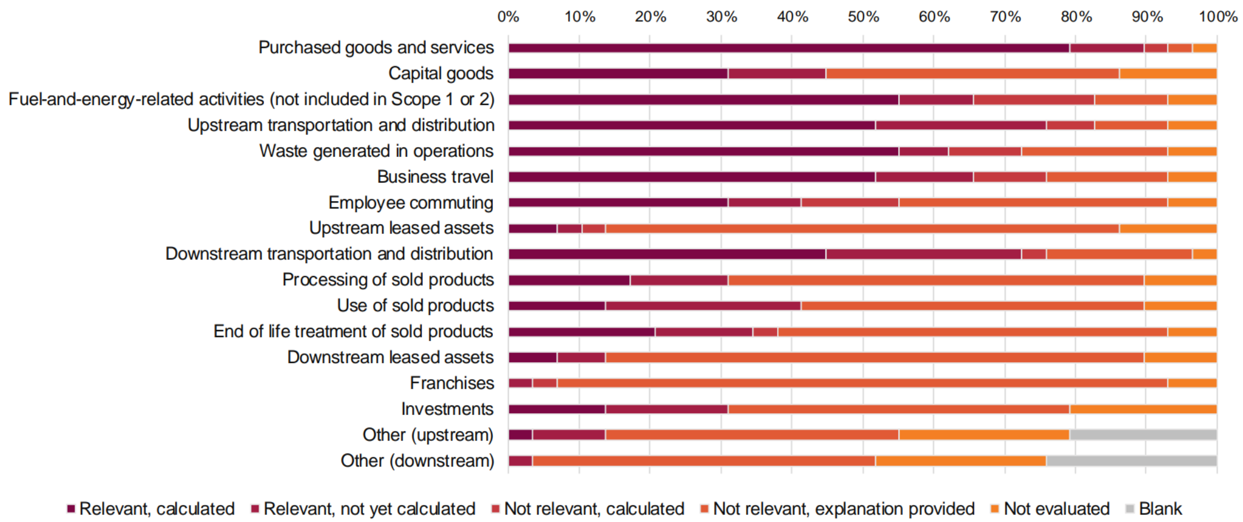

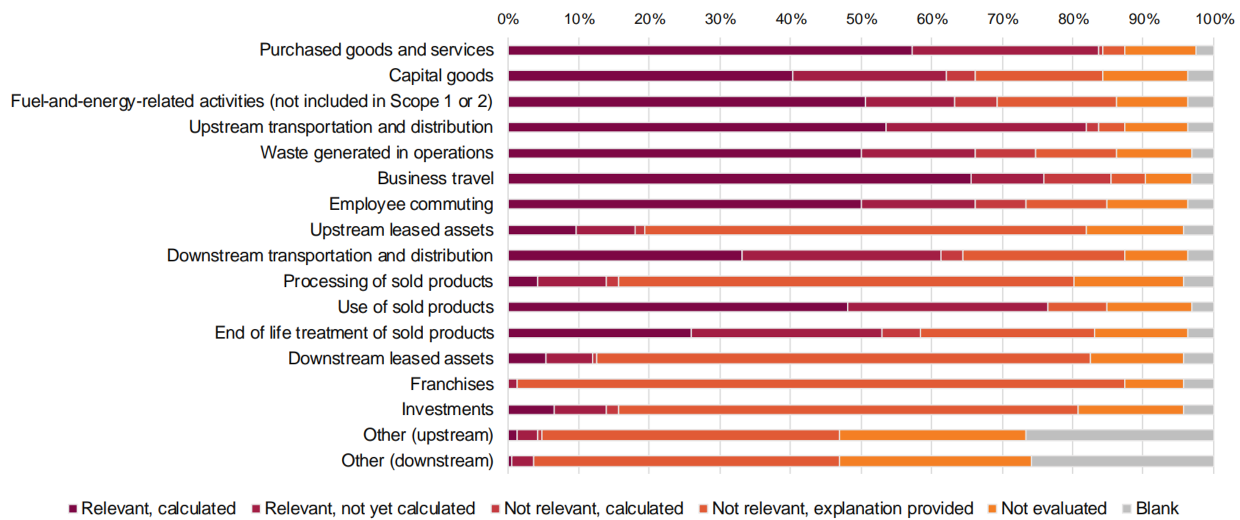

Figure A1. Reported relevance of scope 3 categories for two sectors as examples: A) Agricultural Commodities sector (sample size of 29 companies) and B) Capital Goods sector (sample size of 166 companies. Source: [CDP-technical-note-scope-3-relevance-by-sector.pdf]

Appendix B. New reporters: Grace/transition period

Relevant for question 4: If requirements are differentiated, how should the different scope 3 reporting requirement(s) be defined (by reporter type, if applicable)?, Option 4D: New reporters.

IFRS S2

Paragraphs: C3 through C5, page 53

C3 An entity is not required to provide the disclosures specified in this Standard for any period before the date of initial application. Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies this Standard.

C4 In the first annual reporting period in which an entity applies this Standard, the entity is permitted to use one or both of these reliefs:

(a) if, in the annual reporting period immediately preceding the date of initial application of this Standard, the entity used a method for measuring its greenhouse gas emissions other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), the entity is permitted to continue using that other method; and

(b) an entity is not required to disclose its Scope 3 greenhouse gas emissions (see paragraph 29(a)) which includes, if the entity participates in asset management, commercial banking or insurance activities, the additional information about its financed emissions (see paragraph 29(a)(vi)(2) and paragraphs B58–B63).

C5 If an entity uses the relief in paragraph C4(a) or paragraph C4(b), the entity is permitted to continue to use that relief for the purposes of presenting that information as comparative information in subsequent reporting periods.

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