

Scope 3 TWG Group B Meeting Minutes

Meeting number 5

Date: 6 February 2025

Time: 9:00 – 11:00 AM ET

Location: Virtual

Attendees

Technical Working Group Members

1. Lindsay Burton, Ernst & Young
2. Leo Cheung, The Carbon Trust
3. Betty Cremmins, Independent
4. Holly Emerson, Duke University
5. Hugo Ernest-Jones, Science Based Targets initiative
6. Victor Gancel, Danfoss
7. Isihaka Hanghuja, Uganda National Bureau of Standards (UNBS)
8. Alasdair Hedger, Ellen MacArthur Foundation
9. Ashwini Hingne, WRI
10. Tom Jackson, Loughborough University
11. Aysegul Koseoglu, Inter IKEA
12. Marion Kurdej, EcoAct
13. Tim Letts, WWF
14. Alan Lewis, Smart Freight Centre
15. Thea Lyngseth, ECOS
16. Ryan Maloney, Apple
17. Nicola Stefanie Paczkowski, BASF
18. Vishwesh Pavnaskar, Indorama Ventures
19. David Quach, Wesfarmers
20. Ellen Riise, Essity Hygiene & Health AB
21. Benedicte Robertz, Umicore
22. Stacy Smedley, Building Transparency

Guests

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#5 – Presentation

Summary

Item	Topic and Summary	Outcomes
1	<i>Housekeeping</i> The Secretariat presented the housekeeping rules	N/A
2	<i>Recap of the previous discussion</i> The Secretariat presented a summary of previous discussions and decisions, and outlined relevant outcomes from the Corporate Standard TWG subgroup 3.	N/A
3	<i>Optionality</i> The Secretariat presented question 7 of <i>Discussion Paper B.1 Boundary Setting</i> , "Should the minimum boundaries of scope 3 categories be revised", and three options up for discussion: A. Consider the activities case-by-case, deciding whether to remove them, require them, or make them optional B. Consider the activities case-by-case, deciding whether to remove them or require them C. All currently optional activities become required (subject to relevance by magnitude) The group suggested an additional option, D. Consider the activities case-by-case, deciding whether to remove them, require them, or make them optional and move them to "Other", discussed the issue and indicative polling was held	The TWG members expressed a preference for option D, which was supported by 47% of the group, while option A followed as a runner-up with 32% support.
4	<i>Hotspot analysis</i> The Secretariat presented the topic of hotspot analysis, and options for establishing the denominator: 1. Total scope 3 (required and optional activities) 2. Total scope 3 (required activities) 3. Total of the required activities in categories 1-14 4. Total of the required activities in categories 1-8 5. Other The group suggested an additional option, Total of required and optional activities excluding cat. 15, discussed and indicative polling was held. The group discussed calculation methods applied in hotspot analysis.	The TWG members indicated a preference for option 3, supported by 37% of the group, and option 2, supported by 32% of the group.
5	<i>Reviewing the recommendations package</i> The Secretariat presented the package of recommendations that the TWG has expressed indicative support for thus far, and conducted a poll on the recommendations to be potentially revisited by the group at a later stage subject to discussions on other topics.	N/A
6	<i>Next steps</i> The Secretariat presented the 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

- The Secretariat presented a summary of previous discussions and decisions. The Secretariat outlined relevant outcomes from the Corporate Standard TWG subgroup 3 (slides 9 – 14).

Summary of discussion

- TWG members asked about the implications of potential outcomes of the Corporate Standard TWG discussions for the considerations and recommendations of the Scope 3 TWG, as well as about the details of the considered options for differentiating compliance requirements. The TWG members showed particular interest in the definitions for high emitting sectors and SMEs, suggesting various existing interpretations and challenges. A representative of the Corporate Standard Secretariat team provided information on the current and planned considerations of the TWG, as well as upcoming discussions on definitions for high emitting sectors and SMEs.
- A TWG member suggested that a differentiated threshold could be a potential approach for further consideration.
- A TWG member asked about the definition of a default cumulative threshold. The Secretariat clarified the options considered and the results of indicative polling regarding the recommendations of the group. Another TWG member expressed the opinion that the default threshold should set the maximum value, while companies should be allowed to set lower thresholds. The Secretariat clarified that the default threshold option includes providing preparers with the opportunity to set a higher threshold if justified and disclosed. Several TWG members raised the need to revisit this decision later. The Secretariat reminded that all recommendations made so far can still be reconsidered.
- A TWG member stated that a lot of recommendations of the TWG are interconnected and asked if the workplan includes an opportunity for review and reconsideration of the recommendations. The Secretariat outlined the workplan highlighting that there will be many opportunities for review, including at the end of this meeting, at the end of the considerations of topics in Discussion Paper B.1, at the end of phase 1 and at the end of phase 2 of the TWG, as well as after review by the Independent Standards Board, and after public consultation.

Outcomes (e.g. recommendations, options)

- N/A

3. Optionality

- The Secretariat presented question 7 of Discussion Paper B.1 Boundary Setting, “Should the minimum boundaries of scope 3 categories be revised”, and three options for discussion during the meeting (slide 15-27):
 - A. Consider the activities case-by-case, deciding whether to remove them, require them, or make them optional
 - B. Consider the activities case-by-case, deciding whether to remove them or require them
 - C. All currently optional activities become required (subject to relevance by magnitude)

Summary of discussion

- A TWG member asked which activities are included as optional under “downstream transportation of customers”. The Secretariat explained that the activity denoted the customers commute to and from the point of sales. The TWG member expressed the opinion that the phrasing should be revised in the

text of the Standard. TWG members brought up several examples of currently optional transportation activities that might be significant for a reporter's inventory.

- Regarding the current work of the subgroup C on the reclassification of activities in category 15, TWG members asked for clarification of the definitions of some of the activities as well as of financial institutions per se. The Secretariat provided explanations, and clarified that subgroup C will define the term financial institutions .
- A TWG member stated that 'optional to consider' and 'optional to report/disclose' are very different interpretations, and the group should be clear on the definitions when discussing these issues. Several TWG members supported this statement.
- A TWG member supported the option of removing optionality of activities and highlighted that this option is in line with the previous recommendations of the group. The TWG member stated that preparers currently may omit relevant activities just because they are optional. Another TWG member supported this argument and provided an example from practice, where customer commute to the point of sales is significant in the overall scope 3 inventory but is not currently included in the targets following SBTi guidance, creating a methodological and strategic problem.
- A TWG member highlighted the importance of SBTi guidance on excluding optional activities from the target scope for the current discussion.
- A TWG member stated that on one hand, opening a list of optional activities poses an accounting problem potentially requiring ad infinitum hot spot analysis, while removing optionality poses a challenge of a too rigid list of activities and thus reducing company-specific relevance of the inventory. The Secretariat replied that there could be phrasing that would mitigate these disadvantages. Several TWG members supported the argument that creating a closed list of activities is too rigid and restrictive and might limit and confuse preparers.
- The Secretariat asked if there is concern regarding manipulating calculations to increase the emissions from currently optional activities, to increase the value of the magnitude threshold and thus potentially exclude relevant emissions. The TWG members did not comment on this concern.
- A TWG member spoke to the option of excluding category 15 from the magnitude threshold denominator and suggested discussing if the 5% threshold should apply cumulatively across all categories.
- A TWG member asked if the option of removing optionality assumes creating a list of only those activities that are listed in the standard, or rather implies requiring companies to carry out hotspot analysis on all identified potentially significant activities. The Secretariat clarified that different configurations are possible, subject to the group's consideration.
- A TWG member stated that optionality depends on the purpose of reporting and therefore should be kept as a possibility.
- A TWG member advocated for considering the options from the position of promoting climate action, which is context dependent. The member also stated opposition against ad infinitum calculations and suggested that opting out of calculations should be possible on justified grounds.
- A TWG member advocated for consideration of activities on a case-by-case basis for more detailed discussions and justified decisions. Several TWG members supported this idea. A TWG member supported the argument, adding that case-by-case consideration can add more context, expertise, and the needs of the preparer needs into the consideration.
- A TWG member expressed the opinion that the category "other" should not be made required. The member stated their opinion that multiple activities that are currently optional should be made required, however supported the argument that some of the activities may need further discussion due to uncertainty. The TWG member suggested a potential alternative option of defining whether activities should be removed, required, or optional, but moving the reporting of all optional activities into the category "other", potentially introducing a threshold of inclusion for such activities as well. The member argued that this option would allow for comparability based on required activities and support consistency and target-setting initiatives. Several TWG members supported the option. The TWG member further advocated for not submitting the recommendations package to the ISB until the considerations of the case-by-case activities are finalized. Another TWG member stated that in their opinion the value of the magnitude threshold should be revisited after decisions have been made regarding which activities would remain optional.
- A TWG member supported the previous speaker stating that issues around comparability are very relevant, especially in the target setting and target validation context. The member suggested that

separate targets for required and optional activities should be set up, and thus split reporting of required and optional activities should be introduced.

- A TWG member suggested that optionality of activities does lead to inconsistency in boundaries between reporters. The member highlighted that more rigidity has to be introduced in the boundaries, and provided an example of reporting of travel emissions by a travel booking agency. The Secretariat responded that the particular example is an intermediary party issue and confirmed that this topic will be considered in upcoming meetings.
- A TWG member expressed the opinion that optionality of activities should be maintained to reduce efforts in calculation of activities that are not significant or relevant and focus resources on a prioritized set of activities with high reduction potential. The Secretariat reminded the group that removing optionality would still allow preparers to exclude activities that fall under the magnitude threshold.
- The Secretariat asked if split reporting of required and optional activities might pose challenges for preparers in sourcing emission factors, e.g. separating upstream emissions from combustion emissions when the latter are required, and the former are optional. A TWG member expressed the opinion that these situations are possible and that preparers would potentially need to do a cost-benefit analysis on whether it is worthwhile to separate the required and optional elements. The TWG member raised that separate reporting of required and optional activities could be confusing from a communications standpoint.
- A TWG member expressed support for case-by-case consideration, highlighting the current discussions in subgroup C on category 15 optionality.
- A TWG member urged to introduce criteria or principles to help in defining which activities could or should stay optional, e.g. aligning with the decision-making criteria of climate ambition, and avoiding inadvertent consequences, including the broader sustainability impact beyond the carbon footprint. Another TWG member supported this idea, flagging that a criterion on the preparer's influence over the emissions should be introduced. Another TWG member referred to such emissions as informally called "complementary" or "associated emissions": emissions that readers of GHG accounts may expect to see in an organization's inventory but that aren't reported due to a perceived lack of influence. The group provided several examples of such activities, potential influence of the preparer, and challenges in emission reduction.
- A TWG member asked a question about the rationale of making some activities optional in the first place. The Secretariat clarified that the main arguments in the original *Scope 3 Standard* development were similar to those raised in this meeting, and referred to p. 31 and 32 of the *Scope 3 Standard*. The Secretariat provided to the main reasons, which are setting up practical boundaries, providing preparer's an opportunity to go above and beyond, and reflecting the influence specifically for category 11.

Outcomes (e.g. recommendations, options)

- The Secretariat held an indicative poll for the question "Should the minimum boundaries of scope 3 categories be revised?", with the following results:
 - A. Consider the activities case-by-case, deciding whether to remove them, require them, or make optional: 32% (6/19)
 - B. Consider the activities case-by-case, deciding whether to remove them or require them: 11% (2/19)
 - C. All currently optional activities become required (subject to relevance by magnitude): 11% (2/19)
 - D. Consider the activities case-by-case, deciding whether to remove them, require them, or make them optional and move them to "Other": 47% (9/19)
- A TWG member suggested an alternative option not included in the poll, raising the idea that optionality could be defined on a case-by-case basis for each category, taking into account the company's position in the value chain.

4. Hotspot analysis

- The Secretariat presented the topic of hotspot analysis, and options for establishing the denominator: (slides 28-31)
 1. Total scope 3 (required and optional activities)
 2. Total scope 3 (required activities)
 3. Total of required activities in categories 1-14
 4. Total of required activities in categories 1-8
 5. Total of required and optional activities excluding cat. 15
 6. Other
- The Secretariat presented the suggested order of operations and the calculation methods currently provided in the *Scope 3 Standard* in relation to hotspot analysis, screening analysis, and data prioritization (slides 32-33).

Summary of discussion

- On the denominator for magnitude threshold calculation:
 - A TWG member asked if aggregation of emissions by categories directly contradicts the *Scope 3 Standard* guidance that requires reporting by category. The Secretariat clarified that for this discussion, aggregation is only considered with regard to establishing the denominator for the magnitude threshold calculation, while the reporting requirement would remain separated by category. The Secretariat acknowledged that categories have different temporal boundaries and asked if this poses a methodological challenge for aggregation in threshold calculation. The TWG member expressed their opinion that there are so many differences between categories that they assumed the categories should never be aggregated all together. Another TWG member put forth their interpretation of the *Scope 3 Standard*, that the breakdown by categories shall be provided, but that reporting an aggregated number alongside breakdown is not prohibited, as it represents an overall total target in reductions.
 - The Secretariat asked the group to consider setting up a separate magnitude threshold for different sets of categories. For example, cumulative thresholds for categories 1-8 and for categories 9-15. A TWG member agreed with this differentiation between upstream and downstream categories.
 - A TWG member expressed the opinion that option 4 (total upstream categories) comes with too many unintended consequences for downstream-heavy sectors. The member expressed interest in option 3 (total required of categories 1-14), and asked how category 15 would be dealt with in this option. The Secretariat highlighted that category 15 is of specific interest for financial institutions, for which it can be upwards of 95% of their total scope 3 and might significantly grow if certain activities (such as cash equivalents and pension fund payments) would be introduced. The Secretariat also expressed the opinion that introducing a threshold denominator based on categories 1-14 would make sense only if category 15 has its own threshold. The TWG member suggested an alternative option, including the total of required and optional activities of categories 1-14 in the threshold.
 - A TWG member referred to their experience working with non-financial institutions with significant category 15 emissions, and argued that for these cases, option 3 (total of categories 1-14) would be optimal.
 - A TWG member stated that at least some of the categories would need refinement in the boundaries definition before determining their inclusion or exclusion from the denominator. Another TWG member supported this argument. Another TWG member referred to SBTi guidance on definition of direct and indirect use phase emissions. Several TWG members argued that the guidance covers a minor share of cases that exist in practice and stated that a more exhaustive, principles-based solution is needed.
 - A TWG member suggested that a decision on the denominator for the magnitude threshold might need to be delayed subject to other considerations, including the discussions held in subgroup C on category 15, as well as more detailed considerations of optionality of activities. Another TWG member stated that more options than those presented in the indicative poll might be possible, and expressed the opinion that it is too early in the process to make this judgement. The Secretariat agreed that the recommendations should be revisited later and invited the TWG members to provide their current best judgment based on the information

and recommendations so far. The Secretariat reminded the group that the poll is indicative, and the recommendations are open for reassessment in later stages.

- On the calculation methods for hotspot analysis:
 - A TWG member expressed their concern regarding the use of spend based methods, specifically highlighting their inadequate use for calculation of transportation activities, due to price volatility and the challenges in tracking performance or making data actionable. The TWG member suggested that even hotspot analysis should be based on a form of activity-based data, with options being publicly available.
 - A TWG member suggested that prohibiting use of the spend-based method can be subject to quality and suitability of the method for specific activities. The TWG member suggested that for some categories the spend-based method can be adequate and should not be prohibited for hotspot analysis. The TWG member suggested that using spend-based data should be an option, especially for SMEs and new preparers.
 - A TWG member stated that using better data should not be prohibited, and therefore they disagree with the statement that hotspot analysis could or should be based on the spend-based method only.
 - The Secretariat explained the basis of such inquiry (slide 33). Assuming that different calculation methods result in values of different quality, the latter may not be suitable for comparison, and therefore not suitable for prioritization of further more detailed calculations.
 - A TWG member argued that the differences between spend-based and activity-based data are large, referring to a modelling experiment they conducted, and stated that the values resulting from such different calculations should not be mixed or compared. Another TWG member raised that combining accurate and inaccurate data that differ by orders of magnitude may lead to a skewed percentage breakdown, potentially misinforming decisions made on exclusions and prioritization.
 - A TWG member acknowledged this argument but stated their preference for encouraging preparers to use increasingly better data, and argued that spend-based data can be of varying quality. Several TWG members agreed with this view. The member further stated the opinion that the gaps between spend-based and activity data are too large.
 - A TWG member agreed with the previous speaker, adding that differences in currency conversion and inflation adjustment add additional complexities in application of the spend-based method, exceeding those of the emission factors themselves. The TWG member expressed their disagreement with the overemphasis on spend-based accounting.
 - A TWG member agreed and argued for more guidance on use of EEIO emission factors, reducing malpractice and potentially somewhat increasing confidence in provided values. Another TWG member stated that if the spend-based method is to be accepted, more guidance needs to be introduced, among other, on PPP conversion factors for different currencies. The TWG member also highlighted that spend-based activity data is the most reliable, authentic, and easily available data of a company's value chain. The member argued that the guidance could include an example on how to convert spend-based into mass based - such as average price for spot exchange etc.
 - A TWG member expressed their opinion that EEIO and other spend based calculations, as well as the use of proxies, assumptions and extrapolations, should not be called "calculation of scope 3 emissions" to avoid eliciting false confidence in the provided values by readers. The TWG member suggested the wording "modelling" or "analysis" to decrease emphasis on the precision of the values, stating that the main rationale for hotspotting is determining materiality.
 - A TWG member disagreed with mandating the use of the spend-based method for hotspot analysis, however advocated allowing the method for preparers without access to other tools, as a starting point. The TWG member spoke about the need for encouraging data quality improvements.
 - A TWG member expressed the opinion that no methodological constraints should be set up for hotspot analysis at this point.
 - A TWG member suggested that 3rd party verification would need to be involved in defining the correct and in good faith calculation and application of hotspot analysis. The member suggested that in general, assurance should consider the question of use of the spend-based

- method. The Secretariat clarified that the issue of verification will be discussed in the Corporate Standard TWG, during phase 2 of their scope of work.
- A TWG member inquired about better definitions for the spend-based method. The Secretariat expanded on conversations held in subgroup A, aiming at more differentiation of EEIO application and activity data assumptions made based on monetary measurements.
 - A TWG member suggested to conduct hotspot analysis with the same methods than the final and official carbon footprint calculation.
 - The Secretariat raised the question of the wording of the requirements, and constraints on the use of calculation methods in cases of merges or acquisitions, where different methods were used by the involved entities. A TWG member expressed their opinion that in practice preparers that have models and calculations for activities for previous periods are likely to use those calculations for hotspot analysis, while new activities or previously excluded activities would be calculated utilizing EEIO. The TWG member argued that for the hotspot analysis exercise, incomparability of data quality would be acceptable.
 - On reporting hotspot analysis:
 - A TWG member expressed their opinion that hotspot analysis should not be required in reporting, to avoid confusion for the reader. Several TWG members supported this statement. The member further highlighted the importance of 3rd party verification for the credibility of the analysis, and conclusions made as a result.
 - A TWG member argued that hotspot analysis is done for the purposes of risk assessment or stress testing of assumptions and thus is of a different nature than the inventory. From that perspective, the member supported a requirement to report the hotspot analysis.
 - A TWG member cautioned against potentially giving potential users of the *Standard* the idea that hotspot analysis needs to be a process separate from or distinct from a company's existing inventory development process. Hotspot analysis should enable the preparer to make decisions about their boundaries and the application of the threshold, while most companies will be using their existing inventory development process. The TWG member argued that hotspot analysis should therefore not have separate distinct processes and requirements.

Outcomes (e.g. recommendations, options)

- The Secretariat held an indicative poll for the question "What should be the denominator for the magnitude threshold calculations?", with the following results:
 - Total scope 3 (required and optional activities): 0% (0/19)
 - Total scope 3 (required activities): 32% (6/19)
 - Total of required activities in categories 1-14: 37% (7/19)
 - Total of required activities in categories 1-8: 5% (1/19)
 - Total of required and optional activities excluding cat. 15: 11% (2/19)
 - Other 11% (2/19)
 - Abstain: 5% (1/19)
- A TWG member suggested an alternative option not listed in the poll, in which non-financial institutions would be subject to using the denominator of total scope 3, while financial institutions would be expected to apply separate thresholds for categories 1-14 and 15.
- The Secretariat will compile tentative recommendation packages with the most favored and the runner-up options. The group will revisit the recommendations after more conclusive outcomes on category 15 and activities optionality have been achieved.

5. Reviewing the recommendations package

- The Secretariat presented the scope of recommendations indicative of the TWG preferences so far (slide 35).

Summary of discussion

- N/A

Outcomes (e.g. recommendations, options)

- The Secretariat conducted an indicative poll on the recommendations to be taken forward by the group for potential revisiting in later stages, subject to discussions on other topics. The members indicated their preference for keeping the following recommendations for potential revisiting:
 - Denominator for threshold calculation is total scope 3: 56% (10/18)
 - Requirement of hotspot analysis annually to qualify exclusions: 33% (6/18)
 - Magnitude threshold is cumulative: 17% (3/18)
 - Allowing exclusions for downstream emissions from intermediate products, but implement editorial changes to facilitate interpretations, and remove the provision to exclude all downstream categories if one of them is excluded: 17% (3/18)
 - A default magnitude threshold should be defined by the Scope 3 Standard: 17% (3/18)
 - Magnitude threshold is cumulative 5%: 11% (2/18)
 - Relevance is required based on the criterion of magnitude of emissions only: 6% (1/18)
 - Abstain: 22% (4/18)

6. Next steps

- The Secretariat presented the next steps (see slide 41).

Summary of discussion

- N/A

Outcomes (e.g. recommendations, options)

- N/A

Summary of written submissions received prior to meeting

- No submissions were received.