

Scope 3 Technical Working Group Meeting

WORKING DRAFT; DO NOT CITE

Group C (Investments) Meeting 3

Investment types, classification, and optionality

December 19th, 2024

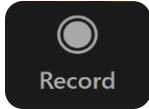
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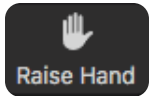
Notes to reader:

- The online version of this presentation is the official version
- All downloaded or printed material is uncontrolled
- This presentation should be read in conjunction with *Discussion Paper C.1*

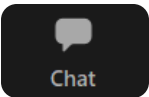
Meeting information



This meeting is recorded.



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



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



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

Agenda

(Draft; for TWG discussion)

- Housekeeping and decision-making criteria (5 min)
- Recap of the previous issues (5 min)
- Issue 3a: Identification and classification (85 min)
 - Agenda, warm-up polls, tentative principles
 - Review classification and optionality of existing and other investments using the principles
- Issue 3b: Category 15 titling/naming (15 min)
- Time planning and next steps (10 min)

Housekeeping and decision-making criteria

Housekeeping

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

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

Decision-Making Criteria

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

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

Standard setting language

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

Recap of previous issues

Status of previous issues

- **Issue 1:** Clarify whether category 15 is applicable for both FIs and non-FIs
 - **Status:** Draft language pending from Secretariat
 - Once draft language is prepared, Secretariat will share with TWG for review and feedback
- **Issue 2:** Review harmonization of the requirements and guidance between the GHG Protocol *Scope 3 Standard* and the PCAF standards concerning (2.5) consolidation approaches and (2.6) data quality score
 - **Status:** Draft language pending from Secretariat
 - Indicative poll results are sufficient for Secretariat to pass on Scope 3 TWG subgroup C feedback to the Corporate Standard TWG for consideration
 - Once draft language is completed, Secretariat will share with TWG for review and feedback

Issue 3a: Identification and classification

Identification and classification

Problem statement:

- Defining an investment is important to ensure consistent identification, classification, and inclusion or exclusion of activities by users (FIs and non-FIs)
- Inconsistent definitions or classifications may cause confusion, disagreement, and hamper comparability

Other implications:

- This has implications for optionality and boundary setting (the latter will be considered by this group in Meeting C.4 in January 2025)

Approach:

1. Present the principles
2. Review existing (GHG Protocol) and potential new investment types

Investment classification

Optionality	Scope 3 Standard	PCAF standards
<u>Required</u> investments	• Equity investments • Debt investments (with <u>known</u> use of proceeds) • Project finance	• Financed emissions (Part A): Listed equity, Corporate bonds, Unlisted equity, Business loans, Project finance, Commercial Real Estate, Mortgages, Motor vehicle loans, and Sovereign debt
<u>Optional</u> investments and investment-related activities	• Debt investments (with <u>unknown</u> use of proceeds) • Managed investments and client services* • Other investments and financial services*	• Facilitated emissions (Part B) (a client service)** • Insurance-associated emissions (Part C) (one way of reporting insurance-associated emissions)**

* GHG Protocol includes many more types of optional and investment-related activities in Table 5.10 versus PCAF which provides guidance for, exclusively, facilitated and insurance-associated emissions

** PCAF requires the disclosure of facilitated emissions and insurance-associated emissions; they are listed here (next to GHG Protocol's optional investments and investment-related activities) for comparability

Warm-up poll #1

- **Question:** How do you, your clients, and/or other stakeholders in your network find the current category 15 classifications?
 - **Multi-selection (select one or more):**
 1. Easy to apply consistently
 2. User-friendly
 3. Unambiguous
 4. Confusing
 5. Inconsistent
 6. Difficult to apply consistently
 7. Other
 8. Abstain

Required:

- Equity investments
- Debt investments (with known use of proceeds)
- Project finance

Optional:

- Debt investments (with unknown use of proceeds)
- Managed investments and client services
- Other investments and financial services

Principles

(designed to support consideration)

Principles

- 1. Investment:** Is the reporting company* deploying capital to earn income
 - An investment implies that invested capital is put at risk to earn a potential reward
- 2. Ownership:** Does the reporting company* legally own the investment/asset
 - E.g., some third-party managers/financial advisors do not own the investments
 - E.g., underwriters and issuers do not own the facilitated party
- 3. Authority:** Does the reporting company* have decision-making authority
 - E.g., some third-party managers and/or financial advisors have limited or no decision-making authority over investments, capital allocation, etc.

* A reporting company could be an investor, investment manager, advisor or other services provider, insurer, or insured party (this list is not exhaustive)

What is an investment?

- **Legal definition (contract law):**

- The term **investment** means: "... to put money in a certain manner so that it will generate revenue, such as investing money into a business, property, securities, a house, stocks, etc. with the purpose of generating income and obtaining a profit." (Cornell University*)

- **GHG Protocol standard approach:**

- "Investments are categorized as a downstream scope 3 category because the provision of capital or financing is a service provided by the reporting company" (*Scope 3 Standard*, p. 52).

- **PCAF standards definition:**

- "The term investment (unless explicitly stated otherwise) is used in the broad sense: 'Putting money into activities or organizations' with the expectation of making a profit.' Most forms of investment involve some form of risk taking... even fixed interest securities which are subject to inflation risk, among other risks."

* Cornell University, Legal Information Institute (LII): <https://www.law.cornell.edu/wex/invest>

A universal ‘principle’ that is non-differentiating

- The principal that an **exchange of value** (i.e., a transaction) has occurred is not listed as a differentiating principal because:
 - Universally, this is common for effectively ALL investment types and investment-related activities (e.g., underwriting, insurance contracts, etc.); AND
 - Universally, this is common for most if not ALL categories in the *Scope 3 Standard* (e.g., purchased products or capital, category 1 or category 2, purchased T&D, category 4, sold products, category 10/11, leased assets, category 8/13, etc.)

Warm-up poll #2

- **Question:** Should category 15 include **only investments** OR **investments and investment-related activities** (e.g., underwriting services, insurance contracts, guarantees, credit default swaps, etc.)?
 - **Options:**
 1. Only investments in category 15
 2. Investments AND investment-related activities in category 15*
 3. Abstain

Note: This question will be asked again (later in this presentation) after reviewing the various other investments

* This concerns classification only; optionality will be considered later

Review existing and potential new investments

(using the principles)

Table key

- The following slides list investment types and index their principles characteristics:
 - **Blue tables** present existing investment (explicitly listed in the *Scope 3 Standard*)
 - PCAF asset types are listed *in grey and italicized* *
 - **Red tables** list new investment/asset types (and/or investments types flagged by stakeholders)**
 - **Orange line-items** reflect the potential classification of new investment/asset types in-line with *existing* investment type classifications in Table 5.9 and Table 5.10 of the *Scope 3 Standard*
 - **Black tables** reflect investment types/activities that cannot be reasonably or unambiguously classified in category 15 (investments) using the **principles approach**

Table 5.9 Summary: Equity, Debt, and Project finance

Investment type (GHG Protocol) and <i>asset type of PCAF</i>	Investment	Ownership	Authority
Equity investments	Yes	Yes	Yes
<i>Unlisted equity (5.2)</i>	Yes	Yes	Yes
<i>Listed equity (5.1)</i>	Yes	Yes	Yes
Debt investments (with known use of proceeds)	Yes	Yes*	Yes
<i>Business loans (including LOCs) (5.2)</i>	Yes	Yes*	Yes
<i>Commercial real estate (loans) (5.4)</i>	Yes	Yes*	Yes
<i>Mortgages (5.5)</i>	Yes	Yes*	Yes
<i>Motor vehicle loans (5.6)</i>	Yes	Yes*	Yes
Project finance (equity sponsor or debt financier)	Yes	Yes	Yes
<i>Project finance (5.3)</i>	Yes	Yes	Yes

* Ownership of the asset, for debt, means that the investor owns the debt instrument(s) and not the underlying collateralized business or asset(s), to which the debtor may have priority claim

Table 5.10 Summary: Debt (without known use of proceeds)

Investment type (GHG Protocol) and <i>asset type of PCAF</i>	Investment	Ownership	Authority
Debt investments (without known use of proceeds)	Yes	Yes	Yes
<i>Corporate bonds (general purpose) (5.1)</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
<i>Sovereign debt (5.7)</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>

Review (1/5): Potential new investment types

Investment type	Investment	Ownership	Authority
Green bonds (with known use of funds)	Yes	Yes	Yes
Green bonds (without known use of funds)	Yes	Yes	Yes
Sovereign bonds (unlisted)	Yes	Yes	Yes
Sovereign bonds (listed)	Yes	Yes	Yes

- **Note:**

- Green bonds (above) refers to associated, attributable inventory emissions and *not* avoided emissions
- Users may calculate avoided/consequential emissions and list this separately from a scope 3 inventory

Consider: Adding investment types to Table 5.9 and 5.10 descriptions

Investment type (GHG Protocol) and potential addition(s)	Investment	Ownership	Authority
Equity investments	Yes	Yes	Yes
Debt investments (with known use of proceeds)	Yes	Yes	Yes
Green bonds (with known use of funds)	Yes	Yes	Yes
Sovereign bonds (unlisted)	Yes	Yes	Yes
Project finance	Yes	Yes	Yes
Debt investments (without known use of proceeds)	Yes	Yes	Yes
Green bonds (with unknown use of funds)	Yes	Yes	Yes
Sovereign bonds (listed)	Yes	Yes	Yes

- Potential investment types to add to descriptions in Table 5.9 and 5.10 are listed above in **orange**

Discussion and Indicative poll #1: Green/Sovereign bonds

- **Question 1:** Should **green bonds** and **sovereign bonds** be classified as debt investments in Table 5.9 and Table 5.10?
 - **Options:**
 1. Yes
 2. No
 3. Abstain

Table 5.10 Summary: Managed investments and client services

Investment type (GHG Protocol) and <i>asset type of PCAF</i>	Investment	Ownership	Authority
Managed investments and client services: Investments managed by the reporting company on behalf of clients (using clients' capital) or services provided by the reporting company to clients, including:	Variable	Variable	Variable
• Investment and asset management (equity or fixed income funds managed on behalf of clients, using clients' capital)	Variable	Yes	Variable*
• Corporate underwriting and issuance for clients seeking equity or debt capital	No	No	No
<i>Facilitated emissions as per PCAF Part B**</i>	No	No	No
• Financial advisory services for clients seeking assistance with mergers and acquisitions or requesting other advisory services	No	No	No

* Investment managers may have decision-making authority over client investments; ** Facilitated emissions (for capital market transactions) as specified by PCAF in Part B is ***not*** referenced in the GHG Protocol *Scope 3 Standard*

Review (2/5): Types of third-party managers

Investment type	Investment	Ownership	Authority
[1] Third-party manager ("TPM") advisory role with discretionary management control (e.g., RIAs, wealth managers, etc.)	No	No	Yes
[2] TPM advisory role with non-discretionary advisory control (client retains decision-making authority) (e.g., financial planners)	No	No	No
[3] TPM of separately managed accounts (SMAs) where assets are held by client, and manager simply oversees them	No	No	No
[4] Third-party custodians (various structures with limited control or decision-making authority and no legal ownership)	No	No	Limited
[5] General Partner (GP) of hedge funds, private equity funds, and venture capital funds (active/discretionary decision-making role)	Limited	Limited	Yes
[6] Pooled investment vehicle (e.g., mutual funds, ETFs)	Limited	Limited	Yes
[7] Limited Partner (LP) (limited liability with no active decision-making role), i.e., an investor in a PE fund, hedge fund, or VC fund*	Yes	Yes	No

* Because limited partner (LP) investors assume limited liability with no active decision-making authority, LP investments made in equity funds, hedge funds, and venture capital funds could be classified simply as equity investments (unlisted)

Consider: Adding description to Table 5.10 for Managed investments

Investment type (GHG Protocol) and potential addition(s)	Investment	Ownership	Authority
• Investment and asset management (equity or fixed income funds managed on behalf of clients, using clients' capital)	Variable*	Yes	Variable
[1] TPM advisor with discretionary management control	No	No	Yes
[5] General Partner of hedge/PE/VC fund	Limited**	Limited**	Yes
[6] Pooled investment vehicle (e.g., mutual funds, ETFs)	No	Limited	Yes

- Potential third-party managers to add to descriptions in Table 5.10 are listed above in **orange**

* Investment managers may have decision-making authority over client investments; ** GPs may contribute and invest a fraction of the funds (i.e., putting in their own funds) but otherwise generally are investing client funds

Discussion and Indicative poll #2: Third-party managers

- **Question 2a:** Should third-party managers with **discretionary management control*** be classified as managed investments in Table 5.10?
 - **Options:**
 1. Yes
 2. No
 3. Abstain
- **Question 2b:** Should third-party managers with **discretionary management control*** be required to account for and report the emissions attributable to managed investments?
 - **Options:**
 1. Maintain optionality
 2. Require for only FIs
 3. Require for FIs/non-FIs**
 4. Abstain

* Decision-making authority over client funds (i.e., investments); ** Subject to significance thresholds (if any)

Consider: Adding description to Table 5.10 for Financial advisory services

Investment type (GHG Protocol) and potential addition(s)	Investment	Ownership	Authority
• Financial advisory services for clients seeking assistance with mergers and acquisitions or requesting other advisory services	No	No	No
[2] TPM advisor with non-discretionary advisory control	No	No	No
[3] TPM of separately managed accounts (SMAs)	No	No	No
[4] Third-party custodians	No	No	Limited

- Potential third-party managers to add to descriptions in Table 5.10 are listed above in **orange**

Discussion and Indicative poll #3

- **Question 3a:** Should third-party managers with **non-discretionary advisory control*** be classified as financial advisory services in Table 5.10?
 - **Options:**
 1. Yes
 2. No
 3. Abstain

- **Question 3b:** Should third-party managers with **non-discretionary advisory control*** be required to account for and report the emission attributable to managed investments?
 - **Options:**
 1. Maintain optionality
 2. Require for only FIs
 3. Require for FIs/non-FIs**
 4. Abstain

* Limited and/or no decision-making authority (client retains authority); ** Subject to significance thresholds (if any)

Consider: Adding description to Table 5.9/5.10 for equity and debt

Investment type (GHG Protocol) and potential addition(s)	Investment	Ownership
Equity investments	Yes	Yes
Debt investments (with known use of proceeds)	Yes	Yes
Debt investments (without known use of proceeds)	Yes	Yes
[7] Client of (investor in) hedge fund, private equity fund, venture capital fund, or any other investment manager	Yes	Yes

- Potential investment types to add to descriptions in Table 5.9 and 5.10 are listed above in **orange**

Discussion and Indicative poll #4

- **Question 4:** Should investments made by a **client of** (i.e., investor in)* a private equity fund, hedge fund, venture capital fund, or any other third-party investment manager classify their investment(s) as equity investments or debt investments in Table 5.9 and/or Table 5.10?**
 - **Options:**
 1. Yes
 2. No
 3. Abstain

* Including Limited Partners (LPs) and all other types of clients; ** This would require inclusion by LPs which may or may not be financial institutions (FIs) absent a justified exclusion (e.g., insignificance, etc.)

Table 5.10 Summary: Other investments or financial services

Investment type (GHG Protocol)	Investment	Ownership	Authority
Other investments or financial services: Other investments, financial contracts, or financial services not included above (e.g., pension funds, retirement accounts, securitized products, insurance contracts, credit guarantees, financial guarantees, export credit insurance, credit default swaps, etc.)*	Variable	Variable	Variable
• Pension funds and/or retirement accounts *	Yes	No	Variable
• Securitized products (e.g., mortgage-backed securities, MBS, residential or commercial mortgage-backed securities, RMBS or CMBS, collateralized debt obligations, CDO)*	Yes	Yes	No
• Insurance contracts, credit guarantees, financial guarantees, export credit insurance, credit default swaps *	No	No	No

* It may not be clear (unambiguous) how or whether these investment, contract, or service types apply exclusively to investments made, services provided, or insurance contracts executed by a reporting company

Review (3/5): Potential new investment types

Investment type	Investment	Ownership	Authority
Investments managed by pension fund or retirement account (as the reporting company) on behalf of employees	Yes	No	Variable*
Compensation payments made by a reporting company to pension fund or retirement account	No	No	No
Investments managed by endowment funds or foundations (as the reporting company) to generate stable stream of income for on behalf of university, hospital, church, etc.	Yes	Yes	Yes
Donations/grants made by a reporting company to endowment funds or foundations**	No	No	No

* Pension funds may have limited decision-making authority over client investments in some cases; ** Donations have a limited exchange of value.

Consider: Maintaining description in Table 5.10 for pension/retirement

Investment type (GHG Protocol) and potential addition(s)	Investment	Ownership	Authority
Other investments or financial services: Other investments, financial contracts, or financial services not included above (e.g., pension funds, retirement accounts, securitized products, insurance contracts, credit guarantees, financial guarantees, export credit insurance, credit default swaps, etc.)*	Variable	Variable	Variable
• Pension funds and/or retirement accounts*	No	No	Variable
Investments managed by pension fund or retirement account (on behalf of employees)	Yes	No	Variable

- **Note:** Potential investment type to maintain/edit in the description in 5.10 is listed above in **orange**

* It may not be clear (unambiguous) how or whether these investment, contract, or service types apply exclusively to investments made, services provided, or insurance contracts executed by a reporting company

Discussion and Indicative poll #5: Pension funds/retirement acc.

- **Question 5a:** Should emissions attributable to **investments made by pension funds or retirement accounts** remain classified in the description of other investments or financial services in Table 5.10?
 - **Options:**
 1. Yes
 2. No
 3. Abstain

- **Question 5b:** Should the description in Table 5.10 unambiguously refer to investments made by a pension fund or retirement account (not reporting companies making compensation payments thereto)?
 - **Options:**
 1. Yes
 2. No
 3. Abstain

Consider: Adding description to Table 5.10 for Managed investments

Investment type (GHG Protocol) and potential addition(s)	Investment	Ownership	Authority
• Investment and asset management (equity or fixed income funds managed on behalf of clients, using clients' capital)	Variable	Yes	Variable
Investments managed by endowment funds or foundations to generate stable stream of income for (on behalf of) university, hospital, church, etc.	Yes	Yes	Yes

- **Note:** Potential investment type to add to the description in 5.10 is listed above in **orange**

Discussion and Indicative poll #6

- **Question 6a:** Should emissions attributable to **investments managed by endowment funds and/or foundations** be classified in the description for managed investments in Table 5.10?
 - **Options:**
 1. Yes
 2. No
 3. Abstain

- **Question 6b:** Should **endowment funds and/or foundations** be required to account for and report the emissions attributable to managed investments?
 - **Options:**
 1. Maintain optionality
 2. Require for only FIs (note that an endowment fund is considered an FI)
 3. Require for FIs/non-FIs*
 4. Abstain

* Subject to significance thresholds (if any)

Unclassifiable (non-investments) for reporting company

Potential investment type(s) in description	Investment	Ownership	Authority
Compensation payments made by reporting company to pension funds	No	No	No
Donations/grants made to endowment funds or foundations by a reporting company	No	No	No

Discussion and Indicative poll #7: Compensation payments

- **Question 7a:** How should emissions associated with investments made using **compensation payments made by a reporting company** to a pension fund or retirement account (on behalf of employees) be accounted for by the reporting company?
 - **Options:**
 1. Add to category 15 other investments or financial services (Table 5.10)
 2. Add sub-category to category 15 for compensation payments
 3. Specify in another scope 3 category (e.g., category 1 as a purchased service)
 4. Create a new scope 3 category (e.g., category 16 for facilitated emissions)
 5. Itemize separately from the reporting company's scope 3 inventory
 6. Other
 7. Abstain

Discussion and Indicative poll #7 (continued)

- **Question 7b:** Should a reporting company making **compensation payments** to a pension fund or retirement account (on behalf of employees) be required to account for and report the associated emissions attributable to investments managed by the pension fund or retirement account?
 - **Options:**
 1. Maintain optionality
 2. Require for only FIs
 3. Require for FIs/non-FIs*
 4. Abstain

* Subject to significance thresholds (if any)

Discussion and Indicative poll #8: Donations/grants

- **Question 8a:** How should **donations or grants** to an endowment fund or foundation made by a reporting company be accounted for by the reporting company?
 - **Options:**
 1. Add to category 15 other investments or financial services (Table 5.10)
 2. Add sub-category to category 15 for donations/grants
 3. Create a new scope 3 category (e.g., category 16 for facilitated emissions)
 4. Itemize separately from the reporting company's scope 3 inventory
 5. Other
 6. Abstain

Discussion and Indicative poll #8 (continued)

- **Question 8b:** Should a reporting company providing **donations/grants** to an endowment fund and/or foundation be required to account for and report the associated emissions attributable to investments made by the endowment fund and/or foundation?
 - **Options:**
 1. Maintain optionality
 2. Require for only FIs (note that many if not most donors/grantors are not FIs)
 3. Require for FIs/non-FIs*
 4. Abstain

* Subject to significance thresholds (if any)

Review (4/5): Potential new investment types

Investment type	Investment	Ownership	Authority
[a] Derivatives (futures, forwards, swaps, options) (including buyers and/or sellers of derivatives)*	Yes	No	No*
[b] Investments made by insurance fund to generate income (insurer perspective)	Yes	Yes	Yes/Limited
[c] Premium payments made by insured party to insurance fund for coverage (insured party perspective)**	No	No	Yes**
[d] Insurance claims payments made to insured party (insurer perspective)	No	No	Limited
[e] Insurance claims payments received by insured party (insured party perspective)**	No	Yes	Limited
[f] Business operating emissions (titled as “ insurance-associated emissions ” by PCAF) which would not be possible absent insurance coverage (insurer perspective)	No	No	No

* The underlying asset is not directly owned nor controlled by either party to OTC derivatives (financial contracts)

** Premium payments are made by an insured party in exchange for potential claims

Consider: Adding description to Table 5.10 for Other investments

Investment type (GHG Protocol) and potential addition(s)	Investment	Ownership	Authority
Other investments or financial services*	Variable	Variable	Variable*
• Insurance contracts, credit guarantees, financial guarantees, export credit insurance, credit default swaps** purchased by a reporting company as an insured party	No	No	Variable*
[a] Derivatives (futures, forwards, swaps, options) (including buyers and/or sellers of derivatives)	Yes	No	N/A

- Note: Credit default swaps (currently listed in Table 5.10) are a type of derivative

* This includes: "... pension funds, retirement accounts, securitized products, insurance contracts, credit guarantees, financial guarantees, export credit insurance, credit default swaps, etc.)" (Table 5.10, *Scope 3 Standard*, p. 55)

Discussion and Indicative poll #9: Derivatives

- **Question 9a:** Should **derivatives** (all types, including futures, forwards, swaps, options) be added and classified under other investments or financial services (Table 5.10)?
 - **Options:**
 1. Yes
 2. No
 3. Abstain
- **Question 9b:** Should buyers/sellers of derivatives be required to account for and report the emissions attributable to the underlying asset(s) thereof (despite not directly owning nor controlling said asset(s))*?
 - **Options:**
 1. Maintain optionality
 2. Require for only FIs
 3. Require for FIs/non-FIs**
 4. Abstain

* The underlying asset(s) is not directly owned nor controlled by either party to OTC derivatives (financial contracts)

** Subject to significance thresholds (if any)

Consider: Specify equity/debt (Table 5.9 and 5.10) applies to insurance funds

Investment type (GHG Protocol) and potential addition(s)	Investment	Ownership	Authority
Equity investments	Yes	Yes	Variable
Debt investments (with known use of proceeds)	Yes	Yes	No
Project finance	Yes	Yes	Variable
Debt investments (without known use of proceeds)	Yes	Yes	Variable
[b] Investments made by insurance fund (insurer perspective)	Yes	Yes	Yes/Limited*

- Investments of insurance funds are ***not*** made on behalf of (nor owned/controlled by) insured parties (i.e., they are not managed investments)
- Investments made by an insurance fund therefore could be classified as simple equity, debt, and/or project finance by and for the profit of the insurance fund (as the investor and reporting company)

* Investment decisions are heavily influenced by regulatory constraints and liability management needs, limiting their full autonomy in asset allocation compared to other typical asset owners

Discussion and Indicative poll #10: Insurance funds

- **Question 10:** Can and should **insurance funds** classify their investments as either equity investments, debt investments, or project finance (using Table 5.9 and/or 5.10)?
 - **Options:**
 1. Yes
 2. No
 3. Abstain

Unclassifiable non-investments

Investment type	Investment	Ownership	Authority
[c] Premium payments made by insured party to insurance fund for coverage (insured party perspective)*	No	No	Yes*
[d] Insurance claims payments made to insured party (insurer perspective)	No	No	Limited**
[e] Insurance claims payments received by insured party (insured party perspective)*	No	Yes	Limited**
[f] Business operating emissions (titled as “ insurance-associated emissions ” by PCAF) which would not be possible absent insurance coverage (insurer perspective)	No	No	No

* Premium payments are made by an insured party in exchange for claims payments

** Insurers may have limited authority to direct the final use of claims payments by insured parties (e.g., insurers may not be able to direct insured parties to use specific materials, energy sources, etc., in the case of a reconstruction) beyond the insurance contract terms; the same is true for insured parties (e.g., they may not have the authority to use claims payments beyond like-for-like recovery of damages)

PCAF guidance on insurance-associated emissions

- **Account for and report separately from a scope 3 inventory**
 - “Insurance-associated... and financed emissions shall be reported separately...” (p. 52, PCAF, Part C)
 - “Insurance-associated emissions are a supplementary accounting note to the GHG Protocol scope 3 category 15 (Investments)” (p. 52, PCAF, Part C)
 - “For the avoidance of doubt, insurance-associated emissions and financed emissions are not, and are not intended to be, directly comparable...” (p. 52, PCAF, Part C)
 - “... the output of financed emissions and insurance-associated emissions calculations are not aligned and will diverge significantly...” (Box 6-1, p. 53, PCAF, Part C)
- **Disclose insured party scope 3 emissions separately from scope 1 and scope 2**
 - “To avoid double counting, the insurance-associated emissions relating to client scope 1 and 2 emissions shall be disclosed separately from the customers’ [i.e., insured party’s] Scope 3 emissions” (p. 52, PCAF, Part C)

Discussion and Indicative poll #11: Premium payments

- **Question 11a:** How should an insured party (reporting company) making **premium payments** account for and report the emissions attributable to insurer investments (using said premium payments)?
 - **Options:**
 1. Keep in category 15 under other investments or financial services (Table 5.10)
 2. Create new sub-category in category 15 for insurance-related payments
 3. Specify in another scope 3 category (e.g., category 1 as a purchased service)
 4. Create a new scope 3 category (e.g., category 16 for facilitated or other intermediary emissions)
 5. Itemize separately from the reporting company's scope 3 inventory
 6. Other
 7. Abstain*

* Important: For abstaining members, insurance-associated emissions (including minimum boundaries and quantification) will be considered in a later meeting by this TWG; this topic of insurance can be revisited

Discussion and Indicative poll #11 (continued)

- **Question 11b:** Should an insured party (reporting company) making **premium payments** be required to account for and report the emissions attributable to investments made by insurance funds?
 - **Options:**
 1. Maintain optionality
 2. Require for only FIs (note that most insured parties are not FIs)
 3. Require for FIs/non-FIs*
 4. Abstain

* Subject to significance thresholds (if any)

Discussion and Indicative poll #12: Claims payments

- **Question 12a:** Should insurers (reporting company) making **claims payments** to insured parties account for and report the emissions attributable to insured parties' use of said claims payments?
 - **Options:**
 1. Keep in category 15 under other investments or financial services (Table 5.10)
 2. Create new sub-category in category 15 for insurance-related payments
 3. Specify in another scope 3 category (e.g., category 1 as a purchased service)
 4. Create a new scope 3 category (e.g., category 16 for facilitated or other intermediary emissions)
 5. Itemize separately from the reporting company's scope 3 inventory
 6. Other
 7. Abstain*

* Important: For abstaining members, insurance-associated emissions (including minimum boundaries and quantification) will be considered in a later meeting by this TWG; this topic of insurance can be revisited

Discussion and Indicative poll #12 (continued)

- **Question 12b:** Should insurers (reporting company) making **claims payments** be required to account for and report the emissions attributable to insured parties' use of said claims payments?
 - **Options:**
 1. Maintain optionality
 2. Require for only FIs (note that most insured parties are not FIs)
 3. Require for FIs/non-FIs*
 4. Abstain

* Subject to significance thresholds (if any)

Discussion and Indicative poll #13: Guarantees

- **Question 13a:** How should parties (reporting companies) to **guarantees** account for and report the emissions attributable to the execution of a guarantee (e.g., financial guarantee, payment guarantee, product guarantee, etc.)?
 - **Options:**
 1. Keep in category 15 under other investments or financial services (Table 5.10)
 2. Create new sub-category in category 15 for insurance-related payments
 3. Specify in another scope 3 category (e.g., category 1 as a purchased service)
 4. Create a new scope 3 category (e.g., category 16 for facilitated or other intermediary emissions)
 5. Itemize separately from a reporting company's scope 3 inventory
 6. Other
 7. Abstain*

Discussion and Indicative poll #13 (continued)

- **Question 13b:** Should parties (reporting companies) to **guarantees** be required to account for and report the emissions attributable to insured parties' use of said claims payments?
 - **Options:**
 1. Maintain optionality
 2. Require for only FIs (note that most insured parties are not FIs)
 3. Require for FIs/non-FIs*
 4. Abstain

* Subject to significance thresholds (if any)

Discussion and Indicative poll #14: Insurance-associated

- **Question 14a:** Should an insurer's (reporting company's) **insurance-associated emissions** (as defined by PCAF) be added to scope 3 category 15 in the *Scope 3 Standard*?
 - **Options:**
 1. Add to category 15 under other investments and financial services in Table 5.10
 2. Add to category 15 via a new sub-category in category 15 for insurance-associated payments
 3. Create a new scope 3 category (e.g., category 16 for facilitated and other emissions)
 4. Itemize separately from the reporting company's scope 3 inventory
 5. Other
 6. Abstain*

* A future meeting will consider minimum boundaries and quantification of insurance-associated emissions.

Discussion and Indicative poll #14 (continued)

- **Question 14b:** Should an insurer (reporting company) be required to account for and report the **insurance-associated emissions** (as defined by PCAF) attributable to insured parties' business operations?
 - **Options:**
 1. Maintain optionality*
 2. Require for only FIs (note that most insured parties are not FIs)
 3. Require for FIs/non-FIs**
 4. Abstain***

*** A future meeting will consider minimum boundaries and quantification of insurance-associated emissions.

* The GHG Protocol *Scope 3 Standard* does not define insurance-associated emissions; it only specifies "insurance contracts" in Table 5.10 without identifying how to quantify the emissions; ** Subject to significance thresholds (if any) 1/7/2025 | 60

Review (5/5): Potential new investment types

Investment type	Investment	Ownership	Authority
Investments made using cash deposits (non-interest-bearing) held by depositor (reporting company) in bank	No	Yes	No*
Cash equivalents held by reporting company in bank or other investment firm	Maybe	Yes	Maybe
Cryptocurrency and blockchain**	Maybe	Yes	Maybe

* In this table, “No” authority is specified for depositors to indicate that depositors have no authority over how or for what a bank (or other deposit holder) lends out (invests) cash deposits or a multiple thereof

** Blockchain often provides a service (purchased by companies, i.e., Category 1), apart from cryptocurrency; and cryptocurrency may be a medium of exchange and not an investment proper

Consider: Adding cash equivalents to Table 5.9 Other investments

Investment type (GHG Protocol) and potential addition(s)	Investment	Ownership	Authority
Other investments or financial services: Other investments, financial contracts, or financial services not included above (e.g., pension funds, retirement accounts, securitized products, insurance contracts, credit guarantees, financial guarantees, export credit insurance, credit default swaps, etc.)	Variable	Variable	Variable*
Cash equivalents* (e.g., ST bonds) held by reporting company in bank or other investment firm	Limited	Yes	No

- Note that cash equivalents are not listed separately as either debt or equity on a balance sheet, instead, they are grouped together with actual cash under a single line item called "Cash and Cash Equivalents" as a current asset, because they are considered highly liquid assets that can be easily converted to cash within a short period of time

* Investor or investment manager may have decision-making authority over client investments

Discussion and Indicative poll #15: Cash equivalents

- **Question 15a:** Should **cash equivalents*** be classified in Table 5.10 as other investments or financial services by a depositor (reporting company)?
 - **Options:**
 1. Yes
 2. No
 3. Abstain

* Cash equivalents exclude non-interest-bearing cash deposits

Discussion and Indicative poll #15 (continued)

- **Question 15b:** Should a reporting company be required to account for and report cash equivalents?
 - **Options:**
 1. Maintain optionality*
 2. Require for only FIs
 3. Require for FIs/non-FIs**
 4. Abstain

* The *Scope 3 Standard* does not explicitly name or define cash equivalents; ** Subject to significance thresholds (if any)

Unclassifiable (non-investment) for reporting company

Investment type	Investment	Ownership	Authority
Investments made using cash deposits (non-interest-bearing) held by depositor (reporting company) in bank	No	Yes	No*
Blockchain services used by reporting company	Maybe**	Yes	Maybe**
Cryptocurrency	Maybe***	Yes	Maybe***

* In this table, “No” authority is specified for depositors to indicate that depositors have no authority over how or for what a bank (or other deposit holder) lends out (invests) cash deposits or a multiple thereof

** Blockchain often provides a service (purchased by companies, i.e., Category 1), apart from cryptocurrency

*** Cryptocurrency may be a medium of exchange and not an investment proper

Discussion and Indicative poll #16: Cash deposits

- **Question 16a:** Should a depositor (reporting company) account for and report the emissions associated with the use (lending) of their **cash deposits*** by the banks/deposit holder in the depositor's category 15?
 - **Options:**
 1. Add to category 15 under other investments and financial services in Table 5.10
 2. Add to category 15 via a new sub-category in category 15 for cash deposits
 3. Create a new scope 3 category (e.g., category 16 for facilitated emissions)
 4. Itemize separately from scope 3 inventory
 5. Abstain

* Cash deposits are non-interest-bearing and excludes cash equivalents

Discussion and Indicative poll #16 (continued)

- **Question 16b:** Should a depositor (reporting company) be required to account for and report cash deposits?*
- **Options:**
 1. Maintain optionality**
 2. Require for only FIs
 3. Require for FIs/non-FIs***
 4. Abstain

* Note that a **deposit holder (e.g., bank)** currently would disclose the emissions associated with lending activities which rely on or use deposited funds (from depositors), as would the **borrower** receiving and using the loan; this means that the emissions associated with the use of cash deposits is already being accounted for by two types of parties

Issue 3b: Category 15 titling/naming

Warm-up poll #3

- **Question:** Are you familiar with PCAF's asset type classifications, including facilitated and insurance-associated emissions?
 - **Options:**
 1. Yes – familiar with them and how they map to GHG Protocol
 2. Yes – just familiar
 3. Only financed emissions (Part A) but not facilitated (Part B) or insurance-associated (Part C)
 4. Somewhat
 5. No
 6. Abstain

Investment classification (repeat of previous slide)

Optionality	Scope 3 Standard	PCAF standards
<u>Required</u> investments	• Equity investments • Debt investments (with <u>known</u> use of proceeds) • Project finance	• Financed emissions (Part A): Listed equity, Corporate bonds, Unlisted equity, Business loans, Project finance, Commercial Real Estate, Mortgages, Motor vehicle loans, and Sovereign debt
<u>Optional</u> investments and investment-related activities	• Debt investments (with <u>unknown</u> use of proceeds) • Managed investments and client services* • Other investments and financial services*	• Facilitated emissions (Part B) (a client service)** • Insurance-associated emissions (Part C) (one way of reporting insurance-associated emissions)**

* GHG Protocol includes many more types of optional and investment-related activities in Table 5.10 versus PCAF which provides guidance for, exclusively, facilitated and insurance-associated emissions

** PCAF requires the disclosure of facilitated emissions and insurance-associated emissions; they are listed here (next to GHG Protocol's optional investments and investment-related activities) for comparability

Current category 15 (investment) classifications

- PCAF **requires** that **all investments** (financed emissions) be disclosed by FIs
 - This includes:
 - Equity investments (listed and unlisted)
 - Debt investments (major types)
 - Project finance
- PCAF does **not** sub-itemize managed investments
 - The above equity, debt, and/or project finance asset types apply to investment managers (including asset owners/managers like mutual funds, pension funds, close-end funds, investment trusts)
 - That reported equity, debt, and/or project finance are managed investments appears to be identified at the reporting-entity-level and not the scope 3 category-level
- PCAF specifies **facilitated emissions** (underwriting and issuance) in a separate standard (PCAF, Part B)
- PCAF specifies **insurance-associated emissions** in a separate standard (PCAF, Part C)

PCAF guidance on insurance-associated emissions

- **Account for and report separately from a scope 3 inventory**
 - “Insurance-associated... and financed emissions shall be reported separately...” (p. 52, PCAF, Part C)
 - “Insurance-associated emissions are a supplementary accounting note to the GHG Protocol scope 3 category 15 (Investments)” (p. 52, PCAF, Part C)
 - “For the avoidance of doubt, insurance-associated emissions and financed emissions are not, and are not intended to be, directly comparable...” (p. 52, PCAF, Part C)
 - “... the output of financed emissions and insurance-associated emissions calculations are not aligned and will diverge significantly...” (Box 6-1, p. 53, PCAF, Part C)
- **Disclose insured party scope 3 emissions separately from scope 1 and scope 2**
 - “To avoid double counting, the insurance-associated emissions relating to client scope 1 and 2 emissions shall be disclosed separately from the customers’ [i.e., insured party’s] Scope 3 emissions” (p. 52, PCAF, Part C)

PCAF guidance on facilitated emissions

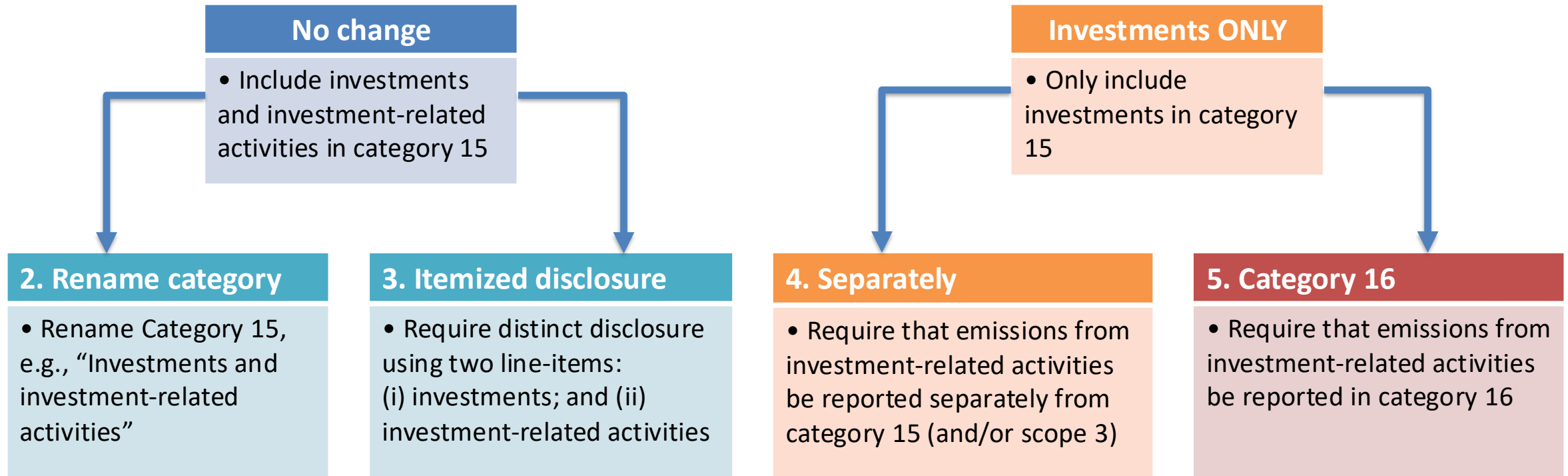
- **Facilitated emissions are not like most category 15 emissions**
 - They are not like most scope 3 category 15 inventory measures, which are “based upon on-balance sheet exposure (i.e., financed emissions)” (*FES*, p. 9)
 - “Transactions can be accomplished within weeks or even days and then completed and often there is no financial (credit) risk taken” making this a “flow activity” (*CME*, p. 9)
 - “They shall be reported separately [i.e., distinctly] under scope 3 category 15... measured and reported as a supplementary accounting note”
- **Do not aggregate facilitated and financed emissions in category 15**

Discussion and Indicative poll #17

- **Question 17:** Should category 15 include **only investments** OR investments **and investment-related activities** (e.g., underwriting services, insurance contracts, guarantees, credit default swaps, etc.)?
 - **Options:**
 1. Only investments should be reported in category 15*
 2. Investments AND investment-related activities should be reported together in category 15
 3. Abstain

* Important: If only investments shall be reported in category 15, then investment-related activities could or would be reported elsewhere and/or separately

Options diagram for Indicative poll #17



Discussion and Indicative poll #18

- **Question 18:** How should investments and investment-related activities be classified?
- **Options:**
 1. Maintain Category 15 name (“Investments”) and continue or more clearly specify that it applies to non-investments (investment-related activities, e.g., advisory services, insurance, etc.)
 2. Rename Category 15 (e.g., “Investments and investment-related activities”)
 3. Require that category 15 emissions be reported using line-items to clearly distinguish investments versus investment-related activities, i.e., (1) **Investments** and (2) **Investment-related**
 - There is precedent for this in category 3 (i.e., sub-categories a, b, c, d)
 4. Report investment-related activities separately from Category 15 (and/or a scope 3 inventory)
 5. Create a new category (e.g., Category 16) for Other items (title and min. boundary TBD)
 6. Other
 7. Abstain

Options diagram for Indicative poll #18

1. No change	2. Rename category	3. Itemized disclosure	4. Separately	5. Category 16	6. Other
• Provide explicit guidance that category 15 includes investments and investment-related activities	• Rename Category 15, e.g., “Investments and investment-related activities”	• Require distinct disclosure using two line-items: (i) investments; and (ii) investment-related activities*	• Require that emissions from investment-related activities be reported separately from category 15 (and/or scope 3)	• Require that emissions from investment-related activities be reported in category 16	• Combination of options 1 through 5 or alternative

* Companies may provide more line-items but shall not mix investments vs. investment-related activities

Discussion and Indicative poll #19

- **Question 19:** Do you believe that the investment types classified in the *Scope 3 Standard* and the asset types (including financed, facilitated, and insurance-associated) classified in the PCAF standards should be mapped for consistency (while allowing for differences) OR harmonized fully?
 - **Note that, currently, PCAF standards state that:**
 - Both facilitated and insurance-associated emissions differ from financed emissions
 - None should be aggregated with one another (i.e., they should be disaggregated)
- **Options:**
 1. Harmonized fully (identical)*
 2. Mapped for consistency (while allowing for differences)
 3. Neither
 4. Abstain

* This implies co-development with and/or agreement between the GHG Protocol and PCAF organizations and could necessitate that GHG Protocol mandate disaggregated reporting of insurance-associated emissions.

Time planning

Meeting dates and times

- **Confirm 6-8am EST** for two meetings in 2025 to benefit members in APAC timezones

Group C						
Meeting	Date	Time				
1	17 Oct 2024 Thu	06:00 PT	09:00 ET	15:00 CET	18:30 IST	00:00 AET
C.1	07 Nov 2024	06:00 PT	09:00 ET	15:00 CET	19:30 IST	00:00 AET
C.2	27 Nov 2024	06:00 PT	09:00 ET	15:00 CET	19:30 IST	01:00 AET
C.3	19 Dec 2024	06:00 PT	09:00 ET	15:00 CET	19:30 IST	00:00 AET
C.4	23 Jan 2025	06:00 PT	09:00 ET	15:00 CET	19:30 IST	01:00 AET
C.5	13 Feb 2025	03:00 PT	06:00 ET	12:00 CET	16:30 IST	01:00 AET
C.6	06 Mar 2025	06:00 PT	09:00 ET	15:00 CET	19:30 IST	00:00 AET
C.7	27 Mar 2025	06:00 PT	09:00 ET	14:00 CET	19:30 IST	00:00 AET
C.8	17 Apr 2025	03:00 PT	06:00 ET	12:00 CET	18:30 IST	00:00 AET
C.9	08 May 2025	06:00 PT	09:00 ET	15:00 CET	19:30 IST	00:00 AET
C.10	29 May 2025	06:00 PT	09:00 ET	15:00 CET	18:30 IST	23:00 AET
C.11	19 Jun 2025	06:00 PT	09:00 ET	15:00 CET	18:30 IST	23:00 AET

Next steps

Next steps

- GHG Protocol Secretariat:
 - December 20th – Distribute the **Recording**
 - January 9th – Distribute **Meeting Minutes** and the **Feedback Form** (if any)
- Next meeting:
 - January 23rd – **Meeting C.4 at 9-11am EST**

Thank you!

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