Climate Governance Initiative Australia

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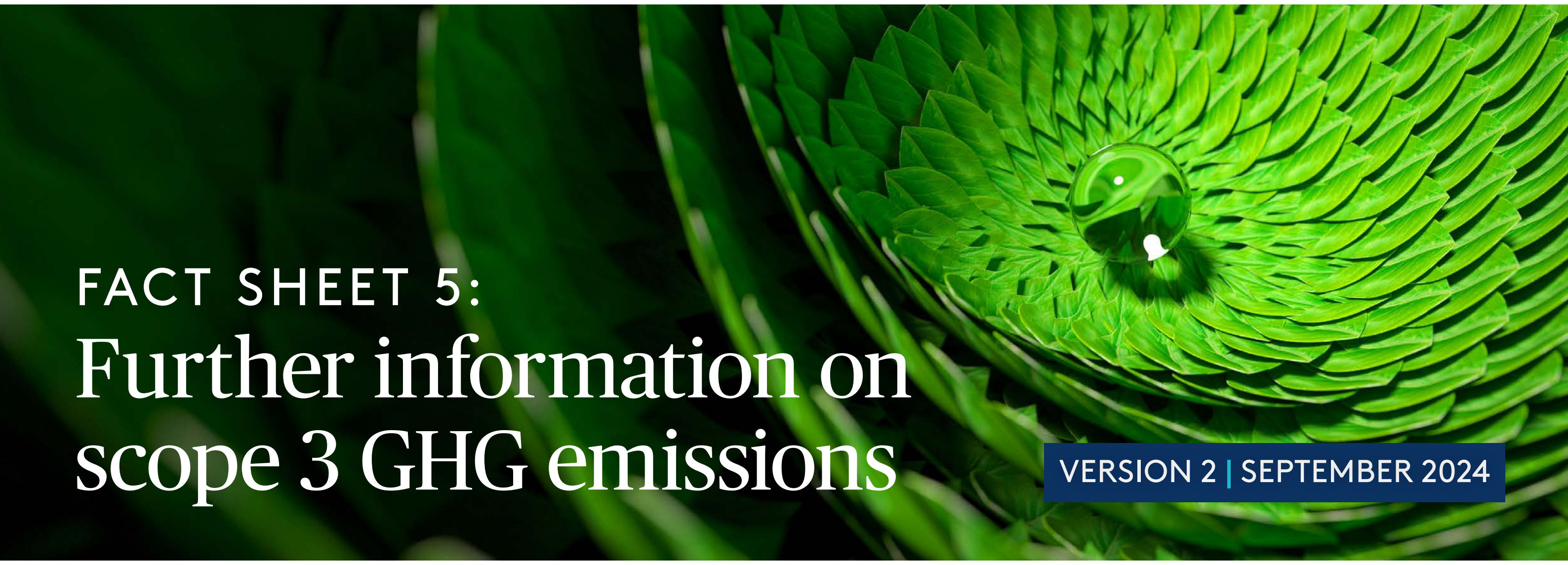

FACT SHEET 5:

Further information on scope 3 GHG emissions

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WHAT ARE SCOPE 3 EMISSIONS?

Scope 3 GHG emissions are all indirect emissions that occur in the value chain of the reporting organisation, including upstream and downstream emissions. The GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard **(GHG Protocol Scope 3 Standard)** sets out 15 categories of emissions that form part of a 'complete' scope 3 GHG emissions inventory. Amongst others, this includes emissions embodied in purchased goods and services (including capital goods), transportation and distribution of goods and services, travel and employee commuting, processing and use, and end of life treatment of sold goods.

WHAT ARE FINANCED EMISSIONS?

Financed emissions in the financial services sector refer to the GHG emissions associated with the investments, loans, and financial activities of commercial banks, insurers and asset managers. The concept recognises that financial institutions can have a significant indirect impact on climate change through their funding decisions and investment portfolios.

AASB S2 is the Australian adaptation of the International Sustainability Standards Board (ISSB) climate standard, IFRS S2. Organisations covered by the regime need to make annual disclosures in line with the mandatory Australian climate standard, AASB S2. Under AASB S2, reporting on financed emissions is mandatory for entities that participate in financial activities associated with asset management, commercial banking or insurance.

As with scope 3 emissions reporting more broadly, there are still significant data, methodology and capacity gaps in respect of identifying and calculating financed emissions. In December 2022, the Partnership for Carbon Accounting Financials, a global partnership of financial institutions seeking to develop a harmonised approach to assessing and disclosing financed emissions, released their Financed Emissions Standard and Insurance-associated Emissions Standard. These standards have been reviewed by the GHG Protocol as being consistent with the GHG Protocol Scope 3 Standard. Further standards are under development.

WHY ARE INVESTORS CONCERNED ABOUT SCOPE 3 EMISSIONS?

Investors seek scope 3 emissions data to gain a more comprehensive picture of the emissions profile of their investment portfolios. For instance, for entities within certain sectors, such as fossil fuel production and export, scope 3 emissions may account for 80 per cent or more of their total emissions.[1]

IS DOUBLE COUNTING AN ISSUE?

Given scope 3 emissions occur from sources owned or controlled by other entities in the value chain, one entity's scope 3 emissions are, by definition, another's scope 1 or 2 emissions.

While there will be some double counting on a macro economy-wide scale, it is generally thought that the value of such information as a means of pricing risk and identifying priorities for decarbonisation outweighs the double counting risks.

1 See CDP (Jan, 2023) CDP Technical Note: Relevance of scope 3 Categories by Sector.

WHY ARE SCOPE 3 EMISSIONS SO DIFFICULT TO CALCULATE?

Calculating scope 1 and scope 2 emissions is comparatively straightforward, with many Australian organisations already reporting on this in some form (such as under the National Greenhouse and Energy Reporting (NGER) Scheme). However, scope 3 emissions are where the challenge is expected to be greatest, as it involves collection of information from sources beyond the control of the reporting entity.

There are also limitations and uncertainties associated with the calculation methodologies. This means that an entity will need to make assumptions and estimates when measuring scope 3 emissions. There are also issues associated with the quality of data, particularly where that data is collected from sources outside the entity's control. Because of this, directors need to be confident that management has adequately explained and disclosed the reasoning behind their measurement approach, inputs and assumptions.

STEPS TO IDENTIFY, CALCULATE AND DISCLOSE SCOPE 3 EMISSIONS

The **GHG Protocol scope 3 Standard** sets out the steps needed to identify, calculate and disclose scope 3 emissions. In summary, the steps include:

1. **Identify scope 3 emissions and set the organisational boundary**: Establish the reporting boundary and identify relevant scope 3 emission categories using the financial control, operational control, or equity share approach (see the **GHG Protocol's Corporate Standard** for more information).
2. **Collect data:** Use primary (field data) or secondary data (information from published sources) for emissions calculations. AASB S2 states that primary data should be prioritised over secondary data.[2] However, the principle of proportionality remains key, with entities required only to use *"all reasonable and supportable information that is available without undue cost or effort."*[3]
3. **Calculate emissions**: Use ***activity data*** (quantitative measure of a level of activity that results in GHG emissions e.g. litres of fuel consumed or kilograms of material purchased) and ***emission factors*** (e.g. CO_2 per unit) to calculate GHG emissions. Use of assumptions and estimations will likely be necessary in light of data and methodology limitations.
4. **Consider assurance options**: The Climate Reporting Legislation mandates the 'end point' of assurance – being mandatory assurance over all disclosures from 1 July 2030, leaving interim assurance requirements to the Auditing and Assurance Standards Board (AUASB).

   In September 2024, the AUASB issued a **Draft Assurance timetable ED 02/24**, for consultation. The proposed timetable applies equally to all Groups, and includes:

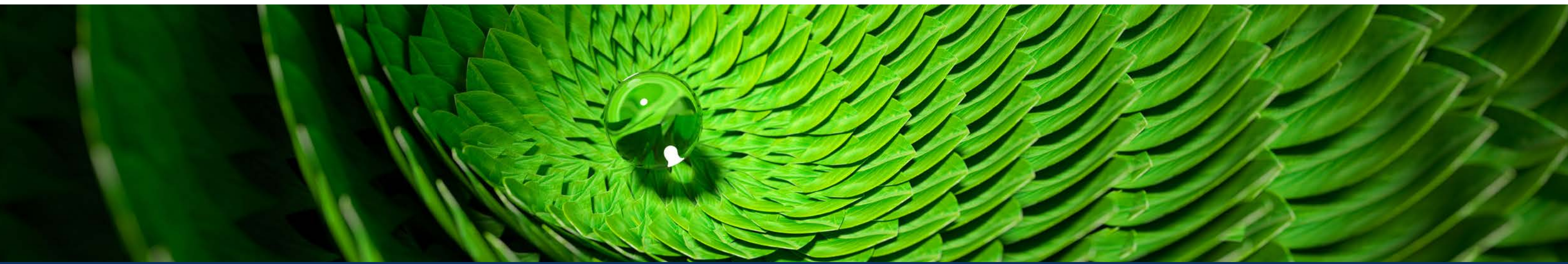
   - Limited assurance over scope 1 and 2 emissions from the first year of reporting, progressing to reasonable assurance in the second year of reporting;
   - Limited assurance over governance and strategy (risks and opportunities) from the first year of reporting, progressing to reasonable assurance in the fourth year of reporting; and
   - Limited assurance over all other disclosures from the second year of reporting, progressing to reasonable assurance in the fourth year of reporting.

   However, organisations may wish to voluntarily seek verification or assurance to increase the quality and reliability of their scope 3 disclosures (see **Fact Sheet 6** on assurance and verification pathways).
5. **Disclose**: AASB S2 requires entities to make scope 3 disclosures from their second reporting year. This includes a requirement to disclose absolute scope 3 GHG emissions in accordance with the **GHG Protocol's Corporate Standard**, unless required by a jurisdictional authority or exchange to use a different standard. It also requires that entities consider all 15 categories of scope 3 emissions set out in the GHG Protocol Scope 3 Standard and specify which of these categories are included in its scope 3 calculations. However, scope 3 disclosures are only required to be made on the basis of 'reasonable and supportable information available to the entity at the reporting date without undue cost or effort' (Proportionality Test).

2 B47 AASB S2.
3 B39 AASB S2.

WHERE CAN I LEARN MORE ABOUT SCOPE 3 EMISSIONS?

- Greenhouse Gas Protocol's **Corporate Value Chain (Scope 3) Standard** (2011) and **Scope 3 Calculation Guidance** (2013)
- Climate Leaders Coalition's **Scope 3 Roadmap: Practical Steps to Address Scope 3 Emissions** (2022)
- Deloitte's **Tackling your value chain emissions** (2023)
- Partnership for Carbon Accounting Financials, **Financed Emissions** (2022) and **Insurance-Associated Emissions** (2022) Standards



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