



Investor  
Group on  
Climate  
Change

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# Uses and Limitations of Investee Scope 3 Disclosures for Investors

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Considerations for Portfolio Reporting  
and Target-Setting

Published March 2024

# About the Investor Group on Climate Change.

We are the leading network for Australian and New Zealand investors to understand and respond to the risks and opportunities of climate change.

Our members include our countries' largest superannuation and retail funds, specialist investors and advisory groups.

They are custodians of the retirement funds and savings for more than 14.8 million Australians and millions more New Zealanders.

Our members manage more than \$35 trillion in global assets, and almost \$5 trillion locally.

## About This Report

This report provides an overview of the uses and limitations of investee company Scope 3 data for investors. It also offers guidance and considerations for investors seeking to include meaningful information about investee Scope 3 emissions in their target setting and reporting.

At the time of publication, the Australian Accounting Standards Board (AASB) was considering submissions on its draft Climate-related Disclosure Standard based on the International Sustainability Standards Board (ISSB) standards.

This report does not comment on the draft Australian standard. IGGC's policy positions are contained in its submission to the AASB and in previous submissions to the Australian Treasury. See: [igcc.org.au/resources](https://igcc.org.au/resources)


## Acknowledgments

Lisa Caripis is the lead author of this report. We also extend our deep appreciation to our investor members, international partners and management team who contributed to this report by sharing generous insights at roundtable discussions and reviewing early drafts.

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# 01: Executive Summary.

Investors are increasingly paying attention to the climate risks associated with emissions in the value chain of their investee companies (investee Scope 3 emissions).

Drawing on insights from IGCC members and leading international standards, this report highlights the uses and limitations of current investee Scope 3 disclosures.

It also considers practical ways investors looking to meaningfully include this information in their climate reporting and targets might address these challenges.

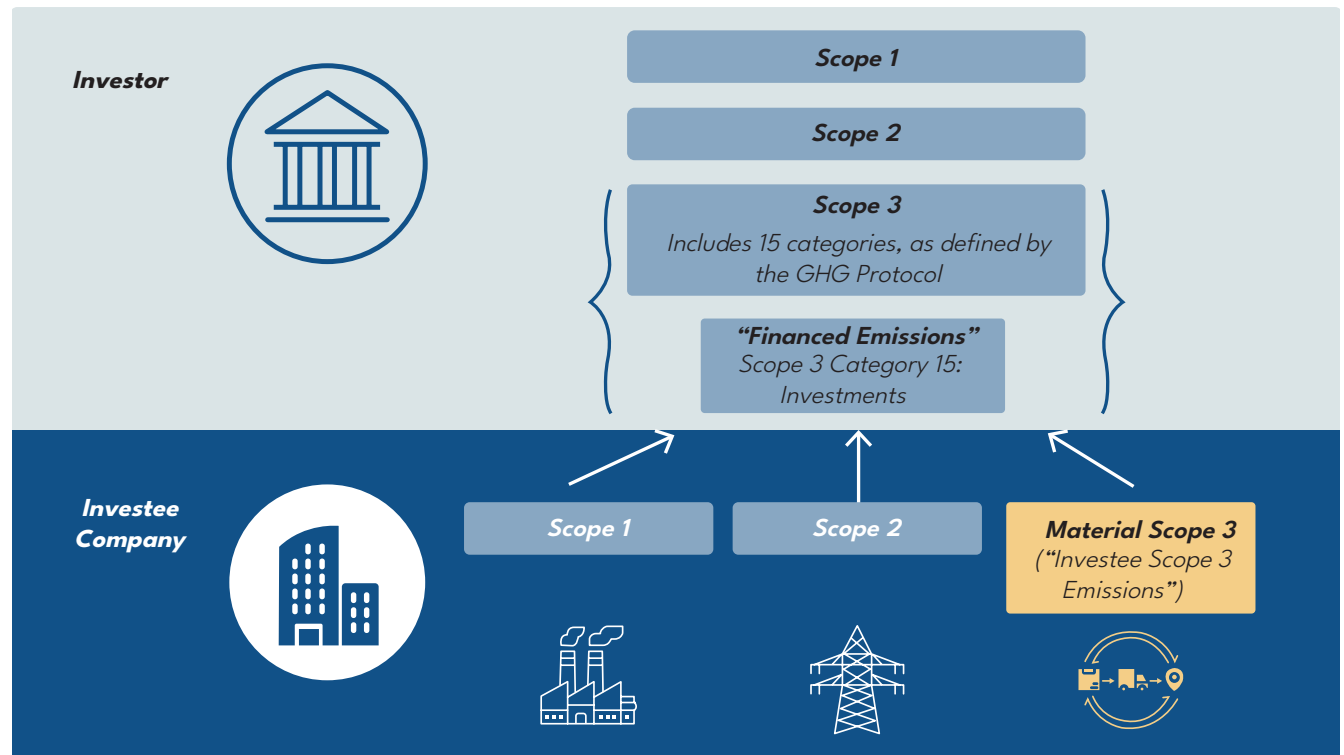
## Growing Momentum for Transparency on Financed Emissions.

Investors are increasingly focused on tackling the emissions associated with the companies and other entities in their investment portfolios, known as their “financed emissions”.

Financed emissions constitute the most significant proportion of an investor’s emissions – over 700 times larger than their direct emissions according to one study<sup>1</sup> – and are therefore crucial for assessing and managing climate risks and opportunities, reporting emissions, and setting targets.

Momentum for transparency in this area is building, with growing numbers of asset owners and asset managers around the world disclosing their financed emissions.<sup>2</sup>

According to international standards, financed emissions comprise the Scope 1, Scope 2 and, to the extent possible, material Scope 3 emissions of investee entities attributable to the investor in proportion to their share of investment (see pages 12-14 of this report).<sup>3</sup>



An illustration of an investor’s financed emissions, including investee Scope 3 emissions.

## The Challenge: Disclosing Investee Scope 3 Emissions

Investee Scope 3 emissions are the emissions in an investee company’s value chain, and include emissions from both their upstream suppliers and downstream customers. A recent discussion paper presenting the views of global investors demonstrates that investors increasingly recognise that:

*“information on the Scope 3 emissions of investee companies is vital for investors looking to credibly decarbonise their portfolios – and manage climate-related risks.”<sup>4</sup>*

Capturing investor perspectives from parallel discussions with IGCC members in Australia, Section 3 of this report outlines the ways in which information about an investee’s Scope 3 emissions can provide investors with valuable insights to help them manage their exposure to climate risks and opportunities, as well as informing their investment stewardship and engagement with investee companies.

However, as outlined in Section 4 of this report, there is substantial variability in Scope 3 data availability and quality. Investors in the region and beyond are actively grappling with the challenges and complexity in the data and the implications for their financed emissions reporting and climate targets.

1 CDP (2021, April 28). “Finance sector’s funded emissions over 700 times greater than its own”. CDP. <https://www.cdp.net/en/articles/media/finance-sectors-funded-emissions-over-700-times-greater-than-its-own>

2 TCFD (2023). “2023 TCFD Status Report”. Taskforce on Climate-Related Financial Disclosures. <https://www.fsb.org/2023/10/2023-tcf-status-report-task-force-on-climate-related-financial-disclosures>

3 IFRS (2023). IFRS S2 Climate-related Disclosures. International Financial Reporting Standards. Appendix A Defined Terms

<https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2/>

4 IIGCC (2024). Investor approaches to scope 3: its importance, challenges and implications for decarbonising portfolios. Institutional Investors Group on Climate Change. <https://www.iigcc.org/resources/iigcc-scope-3-emissions-paper>

## Relevance for Investor Climate Reporting

Section 5 of this report examines several practical ways investors looking to include investee Scope 3 emissions in their climate disclosures can overcome these challenges and disclose meaningful information.

### In Relation to Financed Emissions Reporting:

1. **Ensure Disclosures are Transparent:** Investors should complement quantitative data with explanatory narrative about the completeness, comparability, and reliability of the data.
2. **Separate Investee Scope 3 from Scopes 1 and 2 Emissions:** Dedicated disclosure of investee Scope 3 serves to mitigate double counting. This recommendation is particularly relevant for universal owners, including superannuation funds, as they are likely invested in upstream and/or downstream entities whose Scope 1 or 2 emissions will be another investee company's Scope 3 emissions.
3. **Make Disclosures Meaningful:** Disclosing investee Scope 3 emissions by key sectors is likely to produce more meaningful insights into where the portfolio is exposed to climate risks and opportunities. This is particularly relevant for highly diversified portfolios where the distribution of financed emissions mirrors economy-wide emissions and a single aggregated figure for the portfolio is unlikely to provide useful information.

### In Relation to Other Climate Disclosures:

In addition to disclosing financed emissions information, climate reporting involves disclosing how the entity has – or is planning to – respond to climate-related risks and opportunities. Investors could therefore include information relating to investee Scope 3 emissions to support these aspects of reporting.

For example:

- **Risk Management Disclosures** could describe how the investor is using investee Scope 3 emissions to identify risks and to inform targeted corporate engagement in key industries.
- **Strategy Disclosures** could describe efforts to improve investee Scope 3 disclosure and performance through engagement with companies, standard-setters, and policymakers.
- **Asset-level Targets** could be set following the Net Zero Investment Framework to improve company disclosure, target-setting and emissions performance on Scope 3, among other net zero alignment indicators, as a more effective and impactful alternative to portfolio-level Scope 3 emissions reduction targets.

## An opportunity to sharpen the focus on climate risks

A number of major investors in Australia and globally are already taking steps to measure, analyse and influence investee Scope 3 emissions.

Better and more standardised investee Scope 3 data will help investors to improve their understanding and ability to manage climate risks and opportunities in their portfolio, engage more effectively with investee companies, and make more informed investment decisions.

# 02: Introduction.



## Evolving Expectations of Companies

Investors, including asset managers and asset owners such as superannuation and pension funds, are increasingly aware of the impacts of climate change on company performance. Arising from the physical impacts of climate change, and policy and market responses aimed at reducing greenhouse gas (GHG) emissions, these impacts present both investment risks and opportunities.

This has prompted investors to request that companies and other entities in their portfolio disclose their GHG emissions, as well as any additional information about

their exposure to climate risks and opportunities which could be considered financially material. In the absence of widespread regulation, such voluntary disclosures have been primarily guided by the recommendations of the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#).

We are now witnessing a transition from voluntary to mandatory reporting. In June 2023, the International Sustainability Standards Board (ISSB) spurred global momentum for comprehensive mandatory climate disclosures with the publication of the [Disclosure](#).

[Standards](#) IFRS S1 and S2, which align with and build on the recommendations of the TCFD.

The ISSB Climate Standard (IFRS S2) sets out what investee entities must disclose about their GHG emissions, among other matters, so that investors have standardised information about climate-related risks to the financial performance of the entity. Now, several governments – including Australia – are taking steps to mandate climate reporting and are consulting on the adoption of these standards.<sup>1</sup>

## Growing Momentum for Transparency on Financed Emissions

Recognising the importance of managing climate-related risks and opportunities in their investment portfolios, and in response to increasing demand for transparency from their clients and beneficiaries, some investors have started to report their own emissions.

Emissions associated with investments, known as “financed emissions” or “portfolio emissions”, represent the emissions of companies and other entities in an investment portfolio attributable to the investor based on the investor’s share of investment in those companies or entities.

Financed emissions constitute the most significant proportion of an investor’s emissions profile. Financed emissions of global financial institutions were over 700 times larger than their direct operational emissions on average, according to research conducted by the CDP in 2021.<sup>2</sup>

Financed emissions are therefore a crucial metric for investors when assessing and managing their own exposure to climate risks and opportunities, setting targets, and monitoring and reporting on their progress.

Momentum for transparency in this area is building with growing numbers of asset owners and asset managers around the world choosing to disclose their financed emissions to some degree as part of TCFD-aligned reporting.<sup>3</sup> Many investors also have or will have reporting obligations under local mandatory disclosure regimes or regulations such as the EU Sustainable Finance Disclosures Regulation.

Beyond reporting, many investors are also making net zero commitments and setting targets to reduce their financed emissions through the [Net Zero Asset Managers](#) and [Paris Aligned Asset Owners](#) initiatives.

<sup>1</sup> Including the UK, Canada, Hong Kong, and Singapore. IFRS Advisory Council. (2023, November), “ISSB Adoption Strategy”. International Financial Reporting Standards, 8. <https://www.ifrs.org/content/dam/ifrs/meetings/2023/november/ac/ap5-issb-adoption-strategy.pdf>

<sup>2</sup> CDP (2021, April 28). “Finance sector’s funded emissions over 700 times greater than its own”. CDP. <https://www.cdp.net/en/articles/media/finance-sectors-funded-emissions-over-700-times-greater-than-its-own>

<sup>3</sup> TCFD (2023), “2023 TCFD Status Report”. Taskforce on Climate-Related Financial Disclosures. <https://www.fsb.org/2023/10/2023-tcf-status-report-task-force-on-climate-related-financial-disclosures>



## The Question of Investee Scope 3 Emissions

The question of what should be included in financed emissions is addressed by several leading international accounting standards – the GHG Protocol and the PCAF Financed Emissions Standard.

As detailed on pages 12-14 of this report, these standards specify that financed emissions include the Scope 1, Scope 2 and, to the extent possible, the material Scope 3 emissions of investee entities.

Investee scope 3 emissions are the emissions in an investee company’s value chain covering both their upstream suppliers and downstream customers. These value chain emissions provide insights into the risks and opportunities that a company may be facing that could affect its performance if not managed properly.

A recent discussion paper capturing the views of investors in the United Kingdom and Europe shows that global investors increasingly recognise that:

*“information on the Scope 3 emissions of investee companies is vital for investors looking to credibly decarbonise their portfolios – and manage climate-related risks.”<sup>4</sup>*

The standards account for the fact that investors may not currently be able to obtain and disclose investee Scope 3 emissions for their entire portfolio, but emphasise the importance of being transparent about the degree of coverage.

For example, the ISSB Climate Standard,<sup>5</sup> which adopts the GHG Protocol specifies that from the second year of reporting obligations, an entity engaged in asset management activities must disclose the following information about its financed emissions:

- a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions,
- b) for each of the disaggregated items in paragraph (a), the total amount of assets under management (AUM) that is included in the financed emissions disclosure, expressed in the presentation currency of the entity’s financial statements,
- c) the percentage of the entity’s total AUM included in the financed emissions calculation,
- d) if the percentage is less than 100%, the entity shall disclose information that explains the exclusions, including types of assets and associated amount of AUM, and
- e) the methodology used to calculate the financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of investments.

<sup>4</sup> IIGCC (2024). Investor approaches to scope 3: its importance, challenges and implications for decarbonising portfolios. Institutional Investors Group on Climate Change. <https://www.iigcc.org/resources/iigcc-scope-3-emissions-paper>

<sup>5</sup> IFRS (2023). IFRS S2 Climate-related Disclosures. International Financial Reporting Standards, para 29(a)(vi), para 61.

<https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2/>

## The Purpose of this Report

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IGCC's Investor Practice team convened discussions with investor members in Australia to explore how they use investee Scope 3 emissions data, identify existing challenges, and consider the implications for disclosing their financed emissions.

Similar to investors in other markets actively grappling with this issue, IGCC members identified the importance of addressing disclosures of investee companies' own Scope 3 emissions—highlighting challenges in obtaining accurate data.

This report was therefore developed to explore these limitations and provide insights and guidance on investor climate reporting and target-setting.

- **Section 3** outlines the value of investee Scope 3 emissions data for investors, particularly in their investment management and stewardship activities at an asset level.
- **Section 4** explains the challenges faced by investors in portfolio-level reporting due to current limitations in investee Scope 3 data.
- **Section 5** provides considerations for investors looking at incorporating meaningful information about investee Scope 3 emissions within their climate disclosures and targets, alongside investee Scopes 1 and 2 emissions.

This report focuses primarily on equity and debt investment in companies, and does not address direct investments where the investor may exert greater control or have direct influence over operations and access to data.<sup>6</sup>

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<sup>6</sup> Where the investor has operational or financial control of an asset, for example in real estate, emissions from the asset (such as in the construction or operation of a commercial building) may fall into other emissions categories. The investor may also have more control or influence over these emissions.

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# 02.1: Backgrounders.

# Emissions Scopes and Categories Explained: The Relationship Between Financed Emissions and Investee Scope 3 Emissions

To manage climate risks and achieve emissions reduction targets, entities need to measure, report, and reduce their greenhouse gas emissions.

The ISSB Standard adopts the definitions and calculation methods outlined by the GHG Protocol.

First published in 2001, the Greenhouse Gas (GHG) Protocol is the world's most widely used emissions accounting standard. It sets out three types of emissions:

- **Scope 1** emissions are the direct emissions associated with an entity's operations.
- **Scope 2** emissions are from the generation of electricity or other energy consumed by the entity.
- **Scope 3** emissions are all other indirect emissions from activities in the entity's upstream and downstream value chain.<sup>1</sup>

Scope 3 emissions are broken down into fifteen categories spanning an entity's value chain (Box 1).

For companies, the emissions in their value chain will be concentrated in different categories depending on the primary economic activities of the sector.

For investors, the bulk of their emissions are associated with their investments – Scope 3 Category 15 emissions under the GHG Protocol – known as “financed emissions”.

Financed emissions are the emissions of the investee companies and other entities in the portfolio attributable to the investor based on its proportional share of investment.

## Box 1. GHG Protocol – Scope 3 Categories

### Upstream Scope 3 categories

1. Purchased goods & services
2. Capital goods
3. Fuel and energy related activities
4. Upstream transport & distribution
5. Waste generated in operations
6. Business travel
7. Employee commuting
8. Upstream leased assets

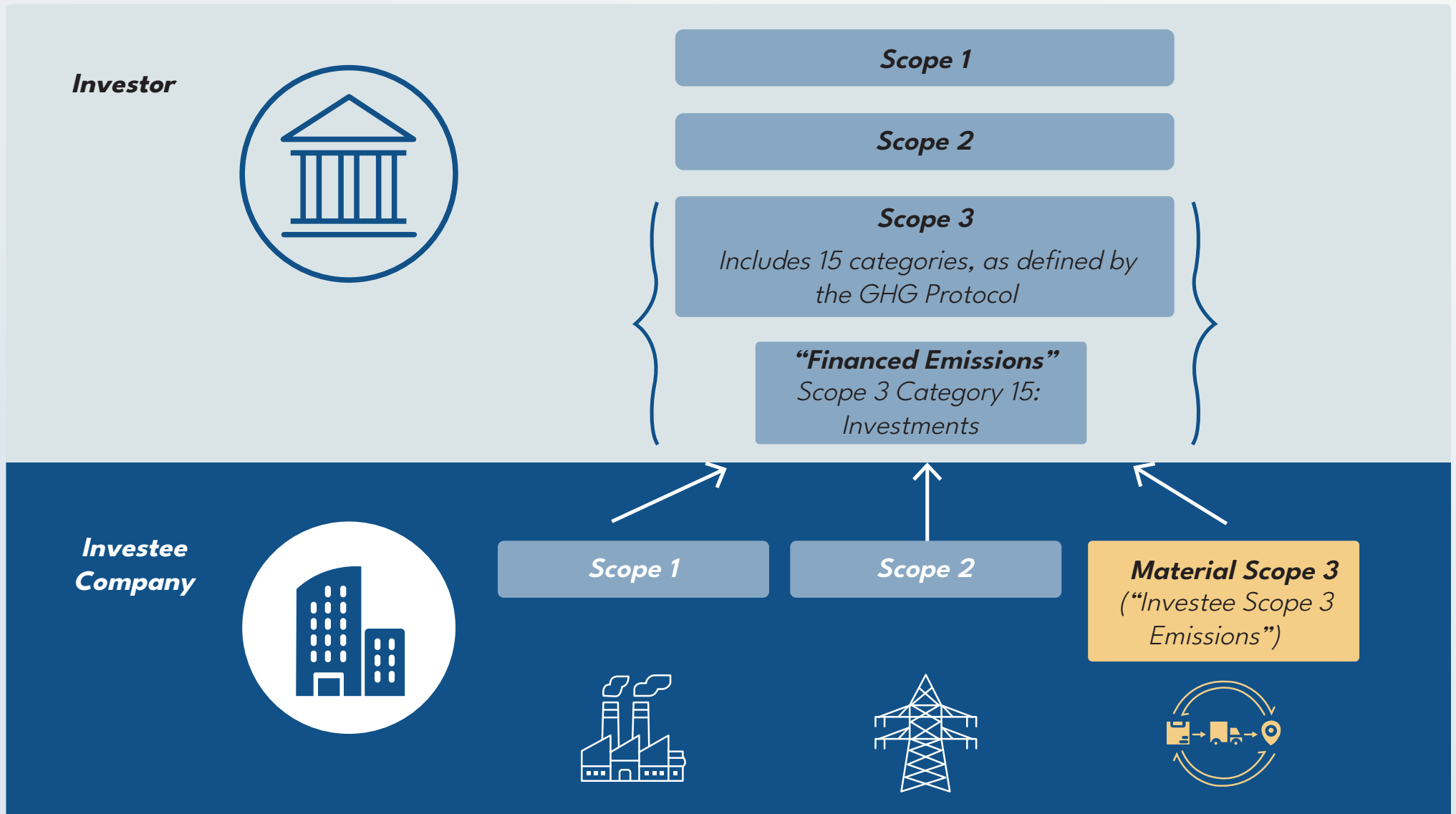
### Downstream Scope 3 categories

9. Transportation & distribution
10. Processing of sold products
11. Use of sold products
12. End of life treatment of sold products
13. Leased assets
14. Franchises
15. Investments

<sup>1</sup> IFRS (2023). “IFRS S2 Climate-related Disclosures.” International Financial Reporting Standards, para 29(a)(vi), paras B23-B25.

<https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2/>

## An investor's financed emissions, including investee Scope 3 emissions.



# To What Extent Do Financed Emissions Include Investee Scope 3 Emissions According to Reporting Standards?

With increasing uptake internationally, it is important that investors are familiar with all three of these interconnected standards to meet expectations across markets.

- The **GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)** states that investors' disclosure of their Scope 3 Category 15 financed emissions should include the Scopes 1 and 2 emissions of investees as well as investee Scope 3 emissions "if significant compared to other sources of emissions or otherwise relevant."<sup>1,2</sup>
- The **Partnership for Carbon Accounting Financials (PCAF) Financed Emissions Standard (2022)** aligns with the GHG Protocol (Box 2). It requires financed emission disclosures for listed and unlisted equities and corporate bonds to phase in investee company Scope 3 emissions over time – starting with the oil, gas, and mining sectors from 2021, transportation,

construction, and industrial sectors from 2023, and all other sectors from 2025 where possible or otherwise explain. Any disclosures of investee Scope 3 emissions shall be made separately to investee Scopes 1 and 2 and identify the sectors covered.<sup>3</sup>

- The **ISSB Climate-related Disclosure Standard (2023)** adopts the GHG Protocol categorisation and extends its requirements for entities engaged in asset management. It requires the disaggregation of disclosures of financed emissions by the Scopes 1, 2 and 3 emissions of the underlying assets. Additionally, entities must state the proportion of assets under management covered in the disclosure and explain any omissions.<sup>4</sup>

Not all sources or categories of investee Scope 3 emissions are material for investors. Some will be too small to have any implications for investment

performance. Only those Scope 3 emissions that are **material to the entity's prospects** must be reported under the ISSB Standards. In other words, emissions in Scope 3 categories that "could reasonably be expected to influence (investor) decisions."<sup>5</sup>

## Box 2. PCAF Financed Emissions Standard

The Partnership for Carbon Accounting Financials (PCAF) is the primary standard for calculating and attributing emissions from investments as part of an investor's financed emissions.

PCAF is developed in conformance with the requirements of the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard and is endorsed by TCFD.

Investors reporting in line with PCAF are therefore well placed to meet ISSB requirements for reporting financed emissions.

<sup>1</sup> Greenhouse Gas Protocol (2011). "Corporate Value Chain (Scope 3) Accounting and Reporting Standard". Greenhouse Gas Protocol. pg 53. [https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard\\_041613\\_2.pdf](https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf)

<sup>2</sup> Greenhouse Gas Protocol (2022). "Technical Guidance for Calculation Scope 3 Emissions – Category 15". Greenhouse Gas Protocol. pg 140. <https://ghgprotocol.org/sites/default/files/2022-12/Chapter15.pdf>

<sup>3</sup> This is based on the timing set out in the legislation for EU climate benchmarks. PCAF (2022). "Financed Emissions Standard." Partnership for Carbon Accounting Financials, pg 51 and 188. <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

<sup>4</sup> IFRS (2023). "IFRS S2 Climate-related Disclosures." International Financial Reporting Standards, para 29(a)(vi), para B61. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2>

<sup>5</sup> IFRS (2023). "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information." International Financial Reporting Standards, para 18. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/rs-s1-general-requirements.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs1/>

# 03: The Value of Investee Company Scope 3 Data for Investors.

Information about the material Scope 3 emissions of investee companies can be valuable for investors in several ways.

## To Inform Investment Analysis and Decisions

Information about the size and sources (“categories”) of an investee company’s material Scope 3 emissions provides investors with valuable insights into climate-related risks and opportunities in the investee’s value chain that could affect financial performance and valuation.

For instance, investing in companies that produce goods leading to substantial emissions when used by customers poses risks in the context of a transition to a low-carbon global economy. Simultaneously, there are also significant commercial opportunities for organisations capable of supplying low-carbon alternatives ahead of their competitors.

In this context, an investee company’s Scope 3 emissions serve as an indicator of “transition risk” – the policy, legal, technological, market and reputational risks to which a company is exposed during the decarbonisation of the economy. These risks may have financial implications, as illustrated in Box 3 with an example of a diversified mining company.

Analysis at a sectoral level can also help to identify leaders and laggards within industries characterised by high Scope 3 emissions and to uncover opportunities to invest in climate solutions. For example, automotive manufacturers transitioning to produce more electrical vehicles than their competitors will exhibit lower Scope 3 emissions from consumer use of their products. In this instance, this information can help investors to identify higher-performing investments that are well-positioned to capitalise on growing consumer demand for electric vehicles, while also being less exposed to the costs associated with complying with progressively stringent fuel efficiency standards.

Of course, emissions data only represents one of several factors that investors should consider when assessing an

investee company’s exposure to transition risk and should be evaluated within a broader context.

Investors may also assess:

- Whether the company’s current and planned capital expenditure – and therefore future emissions – is aligned with credible net zero pathways for their industry,
- Whether the company has a robust climate transition plan,

- Whether the company has appropriate climate governance and skillsets at the senior executive and director level,
- The company’s disclosure and description of climate-related risks and opportunities, the impact of these on their business, and how they are managing these risks, and
- Whether the company is developing climate solutions and therefore helping to reduce emissions in other parts of the economy.

### Box 3: Identifying Transition Risk Using a Diversified Miner’s Scope 3 Emissions

Diversified mining companies face a range of risks and opportunities in the global transition to a net zero economy.

The table below illustrates the emissions profile of a diversified mining company based on the weighted average emissions of nine large, diversified mining companies, beginning with the most significant sources of emission.<sup>1</sup> Analysis of the nine companies reveals that Scope 3 emissions account for over 95% of their total emissions, with 94% of those Scope 3 emissions

originating from the use or processing of their products by their customers (Scope 3, Categories 10 and 11).

Gaining insight into the Scope 3 emissions profile of investee mining companies allows investors to assess the extent of their exposure to transition risks across the different raw materials produced by the investee company, such as reduced demand for coal or dependence on purchasers burning fossil fuels to make steel from iron ore.

Emissions Category	Emissions Type (For Investee)	Example
Processing of mining products	Scope 3, Cat 10	Emissions from customers processing purchased bauxite/alumina to make aluminium or iron ore to make steel
Use of mining products	Scope 3, Cat 11	Emissions from customers burning purchased metallurgical or thermal coal for steelmaking and power generation respectively
Fugitive emissions	Scope 1	Methane released during coal mining operations
Energy acquired	Scope 2	Emissions from generating the power consumed in mining operations
Transportation	Scope 3, Cat 4 & 9	Transportation (including shipping) of mining inputs and products

<sup>1</sup> Table based on weighted average emissions profile of nine large miners: CA100+ (2023). “Investor Expectations for Diversified Mining”. Climate Action 100+, pg 16- 17. <https://www.climateaction100.org/wp-content/uploads/2023/10/Climate-Action-100-Diversified-Mining-Investor-Expectations.pdf>



## To Improve Asset-level Engagement and Stewardship

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Investee Scope 3 data enables investors to engage in a targeted and meaningful way with portfolio companies by informing stewardship efforts.<sup>1</sup>

With this data, investors can identify the extent to which an investee company understands its emissions profile and how well it assesses and manages its exposure to climate risk associated with its suppliers and customers. Investors can then communicate specific expectations about areas where an investee company can influence emissions reductions in its value chain.

For example, an investor might set an expectation that a company:

- Explore the possibility of collaborating with or switching with suppliers to secure low-emission alternatives,
- Modify the design of its products so that they are more energy efficient; and/or
- Diversify its business away from fossil fuel production.

## To Identify Engagement Opportunities for Systemic Change

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Investors with diversified portfolios commonly hold investments in interconnected companies throughout the market. Consequently, they may wield significant leverage and influence over both upstream and downstream entities within an investee company's value chain compared to the influence the individual company may have over those up/downstream entities.

In the scenario outlined in Box 3, an investor with holdings in a steelmaking company that purchases iron ore from a mining company has the potential to influence the steelmaker's iron ore processing methods. By encouraging the adoption of less emissions-intensive methods, the investor can contribute to the reduction of both the steelmaker's Scope 1 emissions (from burning coal) and the mining company's Scope 3 emissions (from the processing of its iron ore).

By conducting analysis to pinpoint key upstream and downstream emissions hotspots and opportunities for engagement within the value chain of investees in a specific sector, diversified investors may be able to identify strategic opportunities to support sector- and economy-wide decarbonisation.

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<sup>1</sup> This is further explained in the GHG Protocol (2022). "Technical Guidance for Calculating Scope 3 Emissions," Chapter 15: Category 15 investments Greenhouse Gas Protocol, pg 140. [https://ghgprotocol.org/sites/default/files/standards/Scope3\\_Calculation\\_Guidance\\_0.pdf](https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf)

# 04: The Limitations of Investee Scope 3 Data.

While investee Scope 3 data holds value for investors, the evolving nature of reporting practices and considerable variability in data availability and quality poses challenges.

These data limitations make it difficult for investors to aggregate asset-level data to produce meaningful portfolio-level emissions disclosures in climate reporting.

## Limitation 1: Widespread Use of Estimated and Proxy Data

Estimated and proxy data are often used for reporting on investee Scope 3 emissions. This is mainly due to the challenges that companies face in obtaining disclosures from third parties in their value chain. Emissions reporting for some asset classes and investments outside of listed companies has also been less common, posing challenges for investors with multi-asset strategies seeking visibility of the emissions profile across their entire portfolio.

The availability of investee Scope 3 data is expected to improve as lawmakers in jurisdictions such as the EU, New Zealand, Australia, and California increasingly mandate Scope 3 disclosures. Private companies are also subject to reporting obligations in markets including Australia, the UK and EU.

Disclosure has already been improving in some sectors (Box 4). Availability of data should also improve with widespread adoption of the ISSB Climate Standard, as the Standard requires entities to disclose material Scope 3 emissions.<sup>1</sup>

The ISSB Climate Standard also requires entities to identify the categories included in their Scope 3 disclosures. This will enable users to understand the primary sources of emissions across the entity's value chain.<sup>2</sup>

Despite expected improvements to the availability of Scope 3 data, the ISSB acknowledges that reliance on estimated and proxy data will continue for some time. The ISSB Standard requires disclosures to be transparent about the use of estimated data.<sup>3</sup>

Additionally, the reliability of estimated Scope 3 emissions varies depending on the type of data input. The ISSB Climate Standard therefore directs reporting companies to prioritise data provided by entities in their supply chain ("primary data") over data based on industry averages ("secondary data"). See also Box 5. PCAF's Data Quality Scores.<sup>4</sup>

### Box 4. Improvement in Scope 3 Disclosures

For some companies in high-emitting sectors, disclosure of Scope 3 emissions has improved. For example, the carbon performance tool of the Transition Pathway Initiative identifies that almost 45% of major emitters from a pool of approximately 600 companies are disclosing some Scope 3 data (these are classified as 'level 3 companies'). Sectors covered include oil & gas, aviation, mining, utilities, automotive, cement, steel, and shipping, among others.

<sup>1</sup> The ISSB Climate Standard gives entities a one-year relief from reporting their Scope 3 emissions: IFRS. (2023). "IFRS S2 Climate-related Disclosures." International Financial Reporting Standards, para C4. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2>.

<sup>2</sup> The Standard does not require disclosure to be disaggregated by Scope 3 category, but Illustrative Example 2 shows that this should be done if it would provide material information to users. The Standard endorses the GHG Protocol as the methodology for identifying and calculating Scope 3 emissions. IFRS (2023). "IFRS S2 Climate-related Disclosures." International Financial Reporting Standards, paras 29 & B32. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2>.

<sup>3</sup> Note that the ISSB nevertheless requires entities to prioritise direct and verified data where it will not result in undue cost or effort. IFRS (2023). "IFRS S2 Climate-related Disclosures." International Financial Reporting Standards, paras B38-57. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2>

<sup>4</sup> IFRS (2023). "IFRS S2 Climate-related Disclosures." International Financial Reporting Standards, paras B46-49.

<https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2>

## Limitation 2: Variability in Data Measurement and Quality

Investors also face challenges related to the significant variations in the way that companies calculate and report their Scope 3 emissions.

This is because the GHG Protocol – which has been adopted by the ISSB Standard – provides entities discretion in determining:

- Organisational boundaries for reporting,
- Relevant Scope 3 categories, and
- Methodologies for calculating and estimating emissions.<sup>5</sup>

It is precisely because of this flexibility that the GHG Protocol makes it clear that it is not designed to support comparisons between companies on their Scope 3

emissions. Instead, it is intended to enable tracking of individual company performance over time.<sup>6</sup>

The PCAF Standard for Financed Emissions also acknowledges that ‘comparability, coverage, transparency, and reliability of Scope 3 data still varies greatly per sector and data source.’<sup>7</sup>

## Limitation 3: No Standardised Sector-specific Guidance

The GHG Protocol suggests that the development of sector-specific guidance, extending beyond the Protocol, could promote greater consistency in measurement and reporting practices with respect to the selection of relevant categories, suitable metrics, and appropriate

data sources, among other considerations for each sector.<sup>8</sup>

Although companies can refer to various sector-specific methodologies and guidance documents to determine

relevant Scope 3 categories and calculate or estimate their emissions – like those provided by the CDP<sup>9</sup> – Scope 3 measurement and disclosure is still an evolving practice. There is currently no convergence on a single best practice standard.

## Limitation 4: Variation in Reporting Timelines and Methods Used by Data Providers

Investors, especially asset owners with portfolios comprising thousands of companies, generally depend on third-party data providers for Scopes 1, 2 and 3 investee emissions data. Different data vendors may come up with different results for the same company. This can be due to a number of reasons, including the processes by which data is collected and recorded.

For example, listed companies publish their emissions information at different points throughout the year, and the date on which it is imported by the data provider may vary. This means the data available may not represent the most up-to-date information. While the ISSB Standard permits the use of data from previous reporting periods,<sup>10</sup> delays in data availability can diminish its efficacy in informing investment management and decision-making. The transition to mandatory reporting with standardised reporting schedules may mitigate this issue in future.

Further, where investee company disclosures are not available, data providers estimate emissions through other company-related information such as production or revenue, and different providers tend to use different, often proprietary, algorithms and assumptions in these calculations. It is crucial that investors are well informed about the underlying methods used by data providers as these will influence analysis of portfolio emissions.

5 Nevertheless, the GHG Protocol provides some guidance regarding each of these matters and has produced methodological guidance for each of the fifteen Scope 3 categories: Greenhouse Gas Protocol (2011). “Corporate Value Chain (Scope 3) Accounting and Reporting Standard”. Greenhouse Gas Protocol. [https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard\\_041613\\_2.pdf](https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf)

6 Greenhouse Gas Protocol (2011). “Corporate Value Chain (Scope 3) Accounting and Reporting Standard”. Greenhouse Gas Protocol, pg 6. [https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard\\_041613\\_2.pdf](https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf)

7 PCAF (2022). “Financed Emissions Standard.” Partnership for Carbon Accounting Financials, pg 50. <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

8 Greenhouse Gas Protocol (2011). “Corporate Value Chain (Scope 3) Accounting and Reporting Standard”. Greenhouse Gas Protocol, pg 9. [https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard\\_041613\\_2.pdf](https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf)

9 CDP (2022) “Technical Note: Relevance of Scope 3 Categories by Sector”. Carbon Disclosure Project. [https://cdn.cdp.net/cdp-production/cms/guidance\\_docs/pdfs/000/003/504/original/CDP-technical-note-scope-3-relevance-by-sector.pdf](https://cdn.cdp.net/cdp-production/cms/guidance_docs/pdfs/000/003/504/original/CDP-technical-note-scope-3-relevance-by-sector.pdf)

10 IFRS (2023). “IFRS S2 Climate-related Disclosures.” International Financial Reporting Standards, paras B19.

<https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2>

# 05: Considerations for Investor Climate Reporting.

Disclosing financed emissions helps investors demonstrate that they are taking steps to identify and manage climate risks and opportunities in their portfolios.

In light of the limitations and inconsistency of investee Scope 3 data to date, this section outlines key considerations for investors looking to include investee Scope 3 emissions in their financed emissions disclosures.

It also offers suggestions for incorporating related information into other climate disclosures such as risk management and targets.

## Financed Emissions Disclosures

### Consideration 1: Ensure Disclosures are Transparent

When reporting aggregated investee Scope 3 emissions at a portfolio level, investors should complement quantitative data with explanatory narratives. This approach ensures transparency relating to the completeness, comparability, and reliability of the data.

#### Completeness of Data

As a general principle, the ISSB Standards require entities to use “all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort”.<sup>1</sup> This acknowledgement recognises that obtaining complete information for an entire portfolio may not always be possible or practical. Transparency regarding the completeness of portfolio coverage is key.

For example, the ISSB Climate Standard requires information on financed emissions to be accompanied by disclosures about the proportion of assets under management (AUM) that they represent.<sup>2</sup> Any omissions must be clarified, meaning that any funds or asset classes for which the investor is not disclosing a financed emissions component, including Scope 3, must be identified and explained.

Similarly, PCAF specifies that, “financial institutions shall explain if they are not able to provide any required Scope 3 information because of data availability or uncertainty.”<sup>3</sup>

#### Reliability of Data

PCAF points out that “data limitations should not deter financial institutions from starting their GHG accounting journeys. Beginning with estimated or proxy data can help financial institutions identify emissions-intensive hotspots in their lending and investment portfolios.”<sup>4</sup>

By using data quality scores (see Box 5), investors can be transparent about the reliability of their disclosures, the extent to which estimated data is used, and variability in company approaches to measurement and reporting.

Following the approach set out by PCAF, investors may also consider a phased approach to portfolio-level disclosures, progressing sector by sector as confidence grows in the consistency and reliability of disclosures in that sector.

### Box 5. The Partnership for Carbon Accounting Financials (PCAF): Data Quality Scores

PCAF provides guidance on data quality scoring per asset class to facilitate data transparency and improvements in financed emissions reporting. For listed equity and corporate bonds, PCAF assigns a data quality score to seven types of emissions data – from verified and reported company emissions, through to estimations using industry averages based on production outputs, energy consumption or revenue.<sup>5</sup>

1 This principle can be found throughout IFRS S1 and S2. Specifically in relation to Scope 3 disclosures see: IFRS (2023). “IFRS S2 Climate-related Disclosures.” International Financial Reporting Standards, para 39. <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2>

2 IFRS (2023). “IFRS S2 Climate-related Disclosures.” International Financial Reporting Standards, paras B61 & B57 (regarding disclosures that would require ‘impracticable’ estimations). <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2>. Note: PCAF also recognises that uncertainty with some investee Scope 3 disclosures would warrant exclusion from financed emissions reporting but requires any exclusions to be disclosed and explained; page 51.

3 PCAF (2022). “Financed Emissions Standard.” Partnership for Carbon Accounting Financials, pg 125. <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

4 As above. pg 57.

5 As above pg 7

## Consideration 2: Separate Investee Scope 3 from Scopes 1 and 2 Emissions

Crucially, in alignment with the ISSB Climate Standard and PCAF, investors should disclose investee Scope 3 emissions separately to Scopes 1 and 2 emissions.

Dedicated disclosure of investee Scope 3 serves to mitigate double counting. This consideration holds particular significance for universal owners, including superannuation funds, as they are likely invested in upstream and/or downstream entities, whose Scope 1 or 2 emissions will be another company's Scope 3 emissions (refer to Box 6 for further insights).

## Consideration 3: Make Disclosures Meaningful

Beyond the disaggregation of emissions scopes, further disaggregation may also be necessary to generate information that is meaningful and insightful. For example, the ISSG General Requirements Standard (IFRS S1) specifies that entities “shall not aggregate information if doing so would obscure information that is material.”<sup>6</sup>

This is especially relevant to disclosures prepared by universal owners and highly diversified investors. As the distribution of financed emissions of these investors essentially mirror economy-wide emissions, the aggregation of investee Scope 3 emissions at a portfolio level may not deliver useful or meaningful insights into the specific areas where their portfolio is exposed to climate risks and opportunities.

## Box 6. Special Considerations for Universal Owners

As universal owners invest across most sectors of the economy, it is likely that they also hold investments in various related entities along a given value chain – an example being a steelmaker and its supplier of iron ore, a mining company.

**Disclosing financed emissions:** A portion of the steelmaker's Scope 1 emissions are the iron ore miner's Scope 3 emissions (Category 10: Processing of sold product). Investors, especially universal owners, must therefore disaggregate their financed emissions disclosures by scope to avoid double counting.

**Setting targets:** Similarly, including Scope 3 in portfolio emissions reduction targets may also lead to challenges relating to double counting. Consequently, any portfolio targets for reducing Scope 3 emissions should be established independently of Scope 1 and 2 targets. As discussed in this report, however, addressing investee Scope 3 emissions through asset alignment targets and engagement might prove more effective than setting portfolio-level emission reduction targets.

It may be more relevant and meaningful for users to see emissions information reported on a sector basis. This would allow them to understand the hotspots (or categories) of material Scope 3 emissions associated with investments in key sectors.

It is worth noting that PCAF recommends a sector-based approach to disclosures (see Box 7) placing emphasis on investments in the highest-emitting sectors.

To help determine the materiality of data and the necessary level of detail, investors should consider the needs of their users: what information or insights they seek to derive from the data and the purpose for which they will use it.

More data does not necessarily translate into better information or more meaningful insights. In the interests of both efficiency and transparency, investors should therefore avoid disclosing data simply for the sake of disclosure.

## Box 7. Disclose Scope 3 Emissions by Sector

The reporting guidelines in the PCAF Standard specify that:

- Financed emissions should be disaggregated at the asset class or sector level, particularly for the most emission-intensive sectors such as energy, power, automotive, cement and steel
- Disclosures of Scope 3 emissions of loans and investments should identify the sectors covered.<sup>7</sup>

<sup>6</sup> IFRS (2023). “IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.” International Financial Reporting Standards, para B30.

<https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs1/>.

<sup>7</sup> PCAF (2022). “Financed Emissions Standard.” Partnership for Carbon Accounting Financials, pg 125. <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

## Other Climate Disclosures

Beyond financed emissions, TCFD- and ISSB-aligned reporting requires investors to report on their risk management processes, strategy and targets, with a focus on how they have – or are planning to – respond to climate-related risks and opportunities. Investors could therefore include information relating to investee Scope 3 emissions to support these aspects of reporting.

### Risk Management: Enhancing Engagement and Stewardship Practices

To demonstrate robust risk management and informed corporate engagement and stewardship practices, investors can provide information about how they use investee-level Scope 3 data to identify risks, engage with their investee companies and make informed investment decisions.

Investors can also detail their use of investee Scope 3 data to identify hotspots within the value chain of key sectors in their portfolio. By showing an approach that recognises upstream and/ or downstream opportunities, investors can demonstrate a systemic strategy for risk management, which promotes targeted engagement to drive economy-wide decarbonisation.

Moreover, disclosing the financed emissions of investments in relevant industries provides context, offering clarity on why investor may be focusing their engagement and stewardship efforts on specific companies and sectors.

### Strategy: Improving Investee Disclosures

Investors can detail their initiatives in engagement, stewardship, and policy advocacy aimed at enhancing the availability, reliability, and standardisation of Scope 3 disclosures.

For active owners, this may include efforts to assess and engage with investee companies about improving their Scope 3 disclosures, setting relevant and credible targets, and reducing their emissions. Investors could also describe how they set expectations of their external managers about collecting and using Scope 3 data and engaging with investee companies on the topic.

Through these efforts, investors not only contribute to advancing industry reporting practices, but improved investee data will improve the credibility of their own financed emissions reporting.

### Targets: Improving Asset Performance

Investors could consider the [Net Zero Investment Framework](#) to set asset-level alignment and engagement targets to improve the material Scope 3 disclosure, target-setting, and performance of their assets, among other indicators (see Box 8).<sup>8</sup> Such targets may be more effective and impactful alternatives to setting portfolio-level Scope 3 emission reduction targets.

### Box 8. The Net Zero Investment Framework (NZIF)

The NZIF is a leading framework developed to guide investors seeking to contribute to the global goal of net zero emissions.

The four target types in the NZIF are aimed at:

- increasing engagement with investee companies to improve their alignment with the goals of the Paris Agreement,
- increasing investment in Paris-aligned assets,
- reducing portfolio emissions, and,
- increasing investment in climate solutions.

The alignment criteria require assessment of a company's statement of ambition, targets, emissions performance, disclosure, decarbonisation strategy and capital allocation alignment.

8 IIGCC (2021). Net Zero Investment Framework. Institutional Investor Group on Climate Change, pg 16. [https://www.parisalignedassetowners.org/media/2021/03/PAII-Net-Zero-Investment-Framework\\_Implementation-Guide.pdf](https://www.parisalignedassetowners.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf)



# 06: Conclusion.

As momentum grows for greater transparency around how investors are managing climate risks and opportunities, many investors are considering how, and to what extent, to measure and report on material investee Scope 3 emissions.

This report has outlined several practical ways that investors looking to include investee Scope 3 data in their disclosures can overcome current challenges arising from the substantial variability in data availability and quality.

Being transparent about the completeness and quality of investee Scope 3 data included in their disclosures, disaggregating data appropriately, and focusing on sectors that are most relevant and where data is sufficiently reliable, can enable investors to produce meaningful and reliable financed emissions disclosures.

The introduction of mandatory Scope 3 reporting is likely to encourage investee companies to improve their disclosure practices. Investors, too, can play an

important role in accelerating these improvements to promote greater consistency and more robust disclosures by engaging with standard setters, policymakers, and external asset managers. Additionally, by setting and working towards asset-level targets investors will be able to effectively engage with companies to improve their Scope 3 disclosure and performance.

Despite current data limitations, investee Scope 3 emissions provide investors with crucial information for managing climate risks and opportunities in their portfolio.

As more companies start meaningfully measuring and reporting the material emissions in their value chain, the opportunities to influence emissions reductions in strategic sectors will become clearer - moving us closer towards the global goal of net zero emissions.



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