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How is Scope 3 affecting sustainability reporting?

By Oliver Pike

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Measuring and tackling Scope 3 emissions

SUMMARY
There is impending regulation from the ISSB, SEC and CSRD requiring Scope 3 emissions data. However, Scope 3 data is challenging to capture and manage, which leads to many companies engaging but not reporting, and those that do report relying on manual tools such as Microsoft Excel.

WHY IT MATTERS
Taking action on Scope 3 is now essential to regulatory compliance deadlines, and Scope 3 data is increasingly required to be included in the reports of large companies through regulations such as the Corporate Sustainability Reporting Directive (CSRD). Correctly managing your Scope 3 data is also useful to boost efficiencies by saving time and resources and to assure investors of your credentials.

ACTIONABLE INSIGHTS:
Companies face significant challenges adapting to the rigor of Scope 3 reporting.

- **Most companies are engaging with Scope 3, or planning to do so, within two years** – the International Sustainability Standards Board (ISSB), U.S. Securities and Exchange Commission (SEC) and CSRD will all require Scope 3 reporting in the near future
- **Companies need to turn their engagement into action and start reporting their Scope 3 emissions** – Investors need accurate data, and not presenting this risks divestment
- **Most businesses rate their Scope 3 management poorly** – this is also evident when implementing an external platform
- **Learnings from Scope 1 and 2 data management suggest that external platforms can work to improve ease, efficiency and effectiveness of Scope 3 data management** – there are, naturally, teething problems and concern as companies rush to abide by regulation
- **Consider partnering with an external platform provider**, to deliver key sustainability data

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ANALYSIS

Companies face difficulties in reporting Scope 3 emissions due to intense data requirements and lack of infrastructure allowing their capture. A new set of solutions beyond the extent of Scope 1 and 2 are needed to tackle Scope 3 emissions and companies need to find different approaches to facilitate this.

Whilst, there is likely to be growing awareness of Scope 3 emissions among sustainability practitioners, the issue of measurement remains. Quantifying Scope 3 emissions can be challenging and many companies struggle to turn engagement into action and include them in their sustainability report. Some companies do not engage at all, and this will have to change soon due to regulatory requirements.

There is further complication when considering the dearth of quality, investor-grade data available for companies to accurately present. This issue ties together with an additional lack of quality data management systems to capture, store and aggregate this data. Put simply, while Microsoft Excel and other spreadsheet variations are incredibly useful, they are insufficient for the vast quantity of data needed to assess the emissions in the full life cycle of a product across the whole value chain.

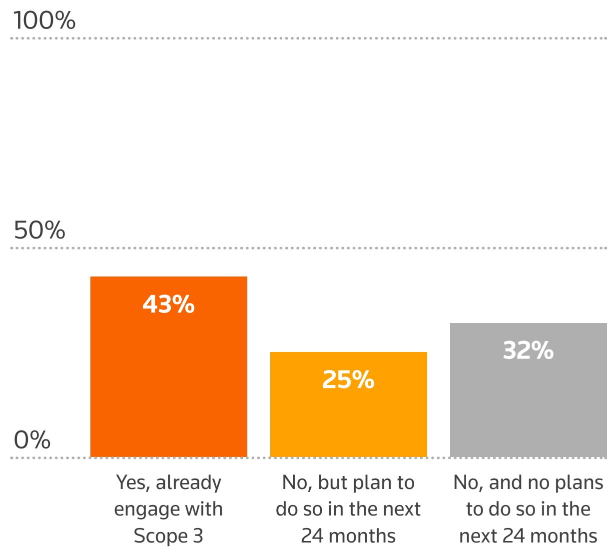
As more companies consider increasing their Scope 3 engagement and reporting, Reuters Events hopes the data we collected can help inform relevant decisions. We surveyed 516 senior business leaders, who are responsible for sustainability in their companies, from August to October 2022. This exclusive data reveals insights on attitudes towards reporting on Scope 3 and wider greenhouse gas (GHG) emissions and how this interlinks with industry demographics, such as global regions, company size and industry. There is also the opportunity to filter results by those who are currently engaging with Scope 3 emissions versus those who are not. Regardless of where a company is at in their Scope 3 management journey, it will be able to reference its peers' experience.

MOST COMPANIES ARE EITHER ENGAGING WITH SCOPE 3 OR PLANNING TO DO SO

According to our data, at present, 43% of surveyed respondents already engage with Scope 3 emissions *(see Figure 1)*. A quarter of respondents (25%) do not currently engage with Scope 3 but plan to do so in the next two years. Only 32% are not engaging and have no plans to do so. This shows that engaging with Scope 3 emissions is a growing trend.

Similar to adoption trends of the Task Force on Climate-related Financial Disclosures (TCFD), we see a trend towards larger and high-revenue companies having higher engagement rates with Scope 3. Our survey revealed that 62% of respondents who worked for companies with a revenue of more than $1 billion were engaging with Scope 3

FIGURE 1. ARE YOU ENGAGING WITH YOUR SCOPE 3 EMISSIONS?



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SUSTAINABILITY REPORTING USA 2023

2-3 October, 2023 **New York**

The Road to Regulatory Compliance

Key metrics:

300+	60+	70%	65%	12+
Attendees	CEO & Executive Speakers	Corporate Attendance	Senior Leaders	Hours Of Networking

Top speakers:

Chris Fox
Chief Sustainability Officer

HANES Brands Inc

Ashley Orgain
Chief Impact Officer

Seventh Generation

Curtis Ravenel
Secretariat

TCFD Task Force on Climate-Related Financial Disclosures

Brendan Morrissey
Vice President, ESG

Walmart

Daniella Foster
Executive Board Member & SVP, Public Affairs, Science & Sustainability, Consumer Health

BAYER

Michael Jantzi
ISSB Member

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and a further 19% were planning to do so within the next two years. That left just 19% of high-revenue respondents who said they were not planning to engage with Scope 3 in the next 24 months. By contrast, among respondents working for companies with a revenue of less than $250 million just 35% were engaging with Scope 3 and 38% had no plan to do so in the next 24 months.

When asked the reason for not engaging, respondents cited a wide range of factors. The top three included companies believing that Scope 3 was not relevant to their business activity (14%), a lack of familiarity with Scope 3 (13%) and the belief that Scope 3 was not a priority or important (12%).

On the latter, one respondent highlighted the importance of regulatory and stakeholder incentivization in driving future engagement with Scope 3: "Unless it is mandatorily required, our company is not likely to prioritize (Scope 3). If consumer/stakeholder sentiment and legislative/regulatory action require us to monitor and track Scope 3, then we would do so and find the means to do so accurately."

Notwithstanding varied organizational sentiment toward Scope 3, legislations are moving to make its reporting a priority for businesses. While not yet mandated, the International Sustainability Standards Board (ISSB) voted unanimously in October 2022 to require companies to report on Scope 3. In a March 2022 climate-related rule proposal, the U.S. Securities and Exchange Commission (SEC) mapped a similar route to mandate Scope 3 reporting. In a SEC press release dated March 21, 2022, companies could be mandated to report on Scope 3 as early as 2024. In the EU, the CSRD, which replaced the Non-Financial Reporting Directive (NFRD), requires Scope 3 reporting depending on company size, with a gradual roll out between 2024 and 2028. By 2024, companies who are already subject to the NFRD will need to report Scope 3 emissions; by 2025, large companies not subject to the NFRD will need to be reporting; by 2026, small and medium-sized enterprises (SMEs) will need to report and by 2028, international companies with operations in the EU with a net turnover above 150 million euros will also need to report Scope 3 emissions.

While smaller companies are not currently mandated to report their Scope 3 emissions, it may be wise for them to start engaging with the data to help them prepare for future expansion of their business, as well as to for future regulations.

The Science Based Targets initiative (SBTi) for example does not require SMEs, which are classed as having fewer than 250 employees, to set Scope 3 targets. It does, however, encourage companies to measure and reduce their Scope 3 emissions.

> ***"IF CONSUMER SENTIMENT OR REGULATORY. ACTION REQUIRE US TO MONITOR AND TRACK SCOPE 3, THEN WE WOULD DO SO AND FIND THE MEANS TO DO SO ACCURATELY"***

Furthermore, small and medium-sized businesses who partner with and supply large enterprises will be increasingly asked to adopt Scope 3 reporting procedures to align and harmonize their reporting. In our survey, while 35% of companies with revenue under $250 million indicated that they were engaged with Scope 3 emissions, only 16% actually report on these emissions and most of those report without any assurance. With regulations pushing large enterprises for Scope 3 disclosure, it is highly likely that this will also become a requirement of suppliers. In fact, Scope 3 reporting may well become a distinguishing factor in whether a large enterprise retains or switches its suppliers.

WHILE MANY COMPANIES ENGAGE WITH SCOPE 3 EMISSIONS, FEW ACTUALLY REPORT

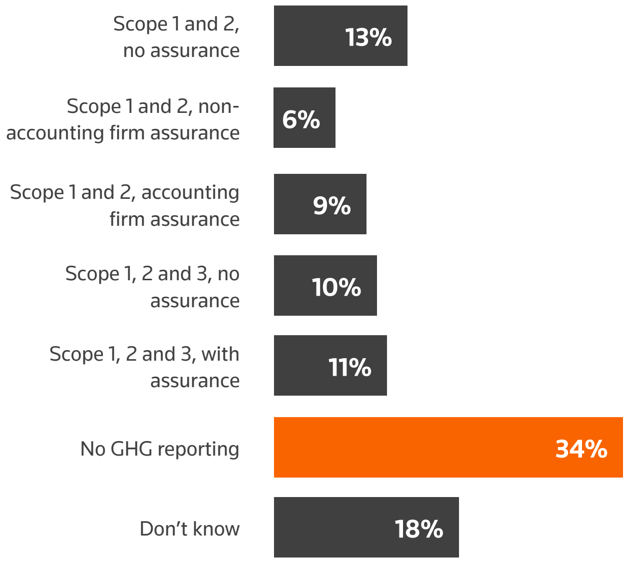
Even though 43% of surveyed respondents stated they currently engage with Scope 3 emissions, only 21% actively report on it. Overall, in terms of reporting on greenhouse gases, 28% report only their Scope 1 and 2 emissions, and 52% do not report at all or don't know if they do so. *(See Figure 2)*

Large companies tend to partake in more reporting across all types of greenhouse gases. Among companies with more than $1 billion in revenue, 33% report their Scope 3 emissions (most of whom report with assurance). A further 39% report their Scope 1 and 2 emissions. The last 29% have no greenhouse gas reporting or don't know if they do so.

Turning engagement into action can be a complex task for companies. Even if companies have the sufficient expertise, most lack the structure, processes and organization to quantify and extrapolate the Scope 3 data across the value chain. When companies lack this expertise, the result is a set of unreliable data. It can be surmised, however, that with so many small suppliers not reporting and with processes in their infancy, engagement is currently the best that some companies can do.

Engaging can therefore be assumed to be defined as making the first positive steps towards reporting. Engaging is getting suppliers on side, putting together measurement processes and learning about Scope 3. Reporting is harmonizing this, gathering sufficient data and putting pen to paper with

FIGURE 2. ON GREENHOUSE GASES, MY ORGANIZATION REPORTS:



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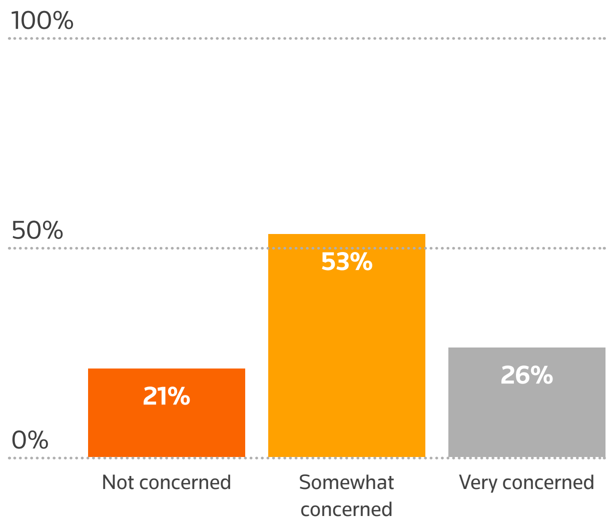
trustworthy, accurate and reliable data. With high levels of scrutiny from regulators, as mentioned earlier, it is evident why companies may take their time to perfect their Scope 3 reporting.

Our survey indicates that there is widespread concern about Scope 3 *(see Figure 3)*. Among respondents, 79% were at least somewhat concerned about their Scope 3 emissions, which may be a reflection of the impending regulations.

Among the 26% who were "very concerned", we can see that there is a link between engagement and reporting of Scope 3. They are twice as likely to be engaged with their Scope 3 emissions (68%) than those who are not concerned or only somewhat concerned about Scope 3 (35%). Furthermore, 33% of those who were "very concerned" were actively reporting on Scope 3 (compared with 17% of those who were not concerned or only somewhat concerned about Scope 3).

Companies are right to be concerned about their Scope 3 emissions, especially considering their inclusion in the new regulations. The companies who fall behind in this rapidly changing environment are at risk of divestment or losing business as a supplier. Turning engagement into action can allow data and sustainability claims to be scrutinized and offer a holistic, transparent comparison to rival companies.

FIGURE 3. HOW CONCERNED ARE YOU REGARDING YOUR SCOPE 3 EMISSIONS



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DATA FROM THE WRI SHOWS THAT IN THE FINANCIAL SERVICES SECTOR, 100% OF EMISSIONS ARE SCOPE 3

However, Scope 3 emissions are large and span the entire value chain. In many industries, they make up the vast majority of a company's emissions. Data from the World Resources Institute (WRI) shows that in the financial services sector, 100% of emissions are Scope 3. In metals and mining, this sits at 92%. This makes mapping and assessing emissions an estimation in some cases. Complications can further arise when supply chains get larger and reliable data management systems aren't already built in.

SURVEY DETAILS:

Reuters Events surveyed 516 senior business leaders involved in shaping and delivering their organization's sustainability reporting and their Scope 3 practices from August to October 2022. This exclusive data reveals insights on attitudes towards Scope 3 reporting and wider greenhouse gas (GHG) reporting and how this interlinks with industry demographics (such as global regions, size and industry). There was also the opportunity to filter results by those who are currently engaging with Scope 3 emissions versus those who are not.