CBSR: Corporate Members Net Zero Working Group – Robustness Considerations Scope 1-3

December 16th, 2021
10:30am-12:00pm EST

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AGENDA

Time (EST)	Agenda
10:30-10:40 AM	Introductions and Virtual housekeeping
10:40-10:55 AM	The importance of GHG emissions disclosure
10:55-11:10 AM	CBSR Member Example • Scotiabank
11:15-11:45 AM	Discussions: • Q1: Supply Chain Engagement for Scope 3 Reductions • Q2: Scope 3 Disclosure and Target Setting
11:55-12:00 PM	Next steps and E-badge!

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VIRTUAL HOUSEKEEPING

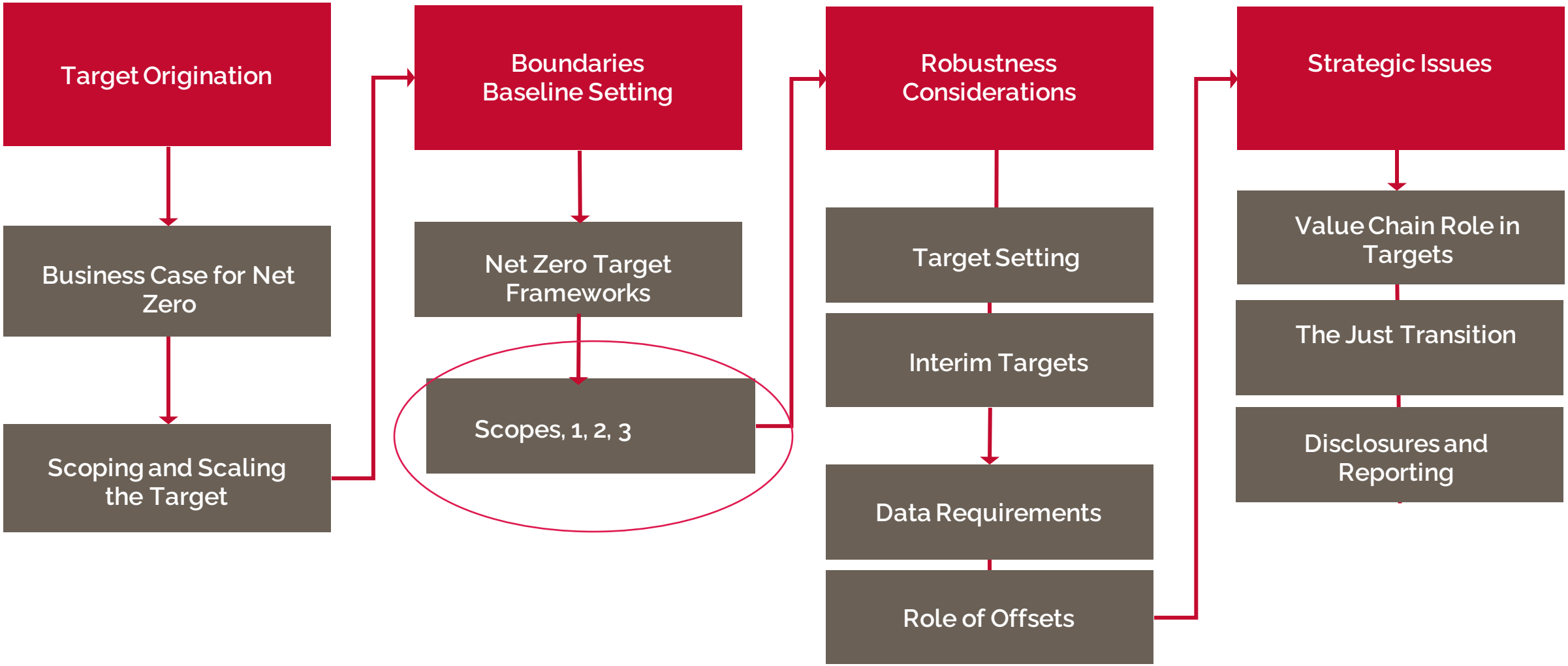
Adjust your Zoom display name to show:
[Your Name, Company Name]

Encouraged to switch on video & participate!

Chatham House Rules
Take care of your needs

Tech questions? Ask them in the **CHAT**

Continuum – Target Development Journey: CBSR Corporate Members



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Meet the CBSR Corporate Net Zero Working Group

GHG SCOPE 1-3: OVERVIEW

Executive Summary	
Net-Zero Emissions – Current Trajectory	Current emissions are not aligned with a 2030 near term target, nor a 2050 net-zero target
Canadian Climate Policy	Regulations, carbon taxes and different policies can both support robust Scope 1-3 corporate targets, and confuse them.
Creating a Baseline Through Reporting	Without an accurate and consistent baseline indication of emissions, measurement of reduction efforts is problematic.
The Emissions Elephant in The Room	Scope 3 emissions represent the greatest proportion of GHG emissions for most companies, across almost all sectors.
Scope 3 Category Disclosure	Companies should strive to disclose as many Scope 3 categories as possible, within the relative materiality of their operations.
Scope 3 Statistics	Scope 3 disclosure up and down the value change is essential for risk management and essential to reach 2050 net-zero goals.
Scope 3 Target Setting	Companies need to start setting Scope 3 targets now if they are going to recognize their 2050 net-zero goals in the future.

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Strategic Considerations

Discussion Question #1

What methods are you using for supply chain engagement across your value chain for Scope 3 emission reductions?

Discussion Question #2

Which Scope 3 categories does your organization disclose under? Do you have plans to expand that disclosure? How will you set targets in the near or long term?

Discussion Question #3

Which Scope 3 target setting strategy most resonates with your organization (Intensity, Absolute, SCM, SBTi), and why?

Discussion Question #4

With the increased attention to net zero targets have you increased the robustness of your Scope 1-3 inventory and forecasts?

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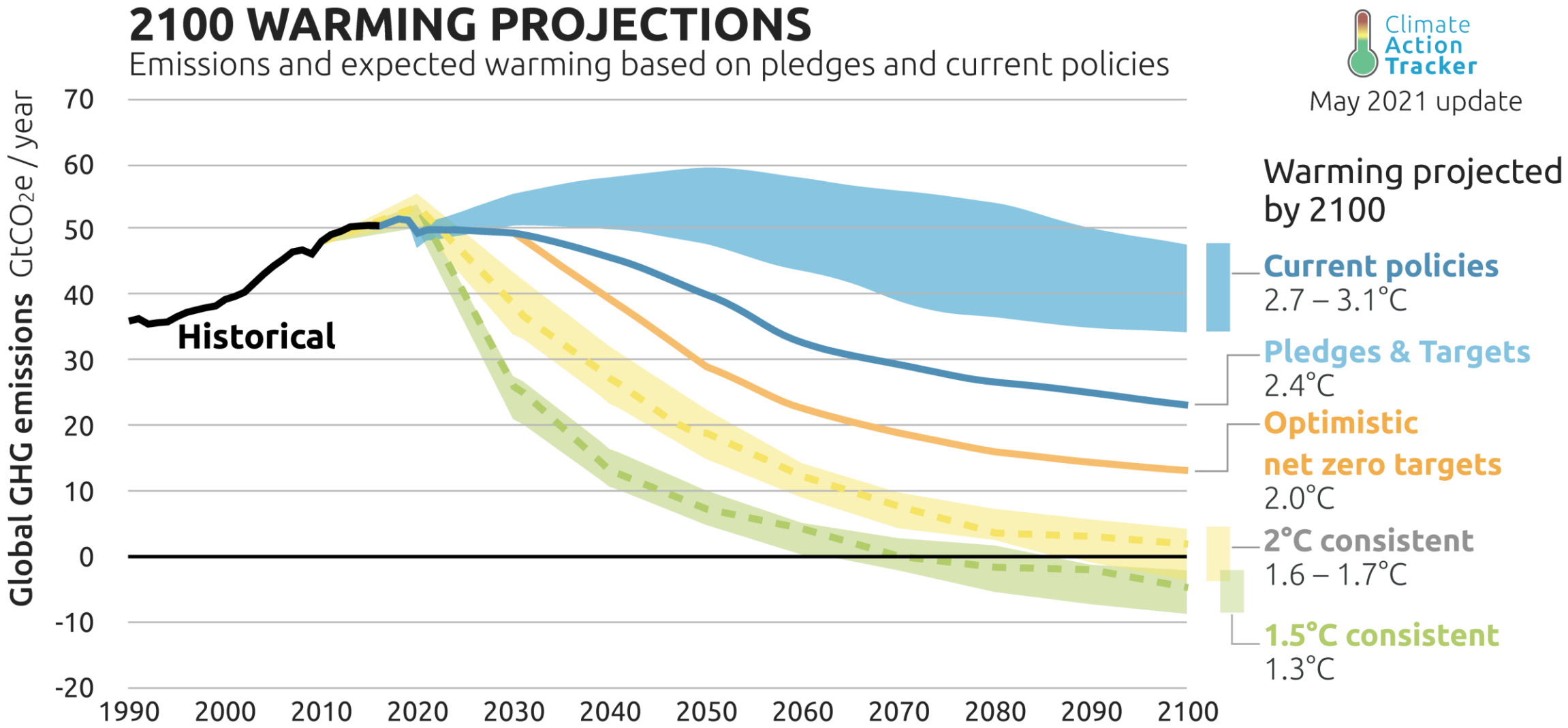
Net-Zero Emissions – Current Trajectory



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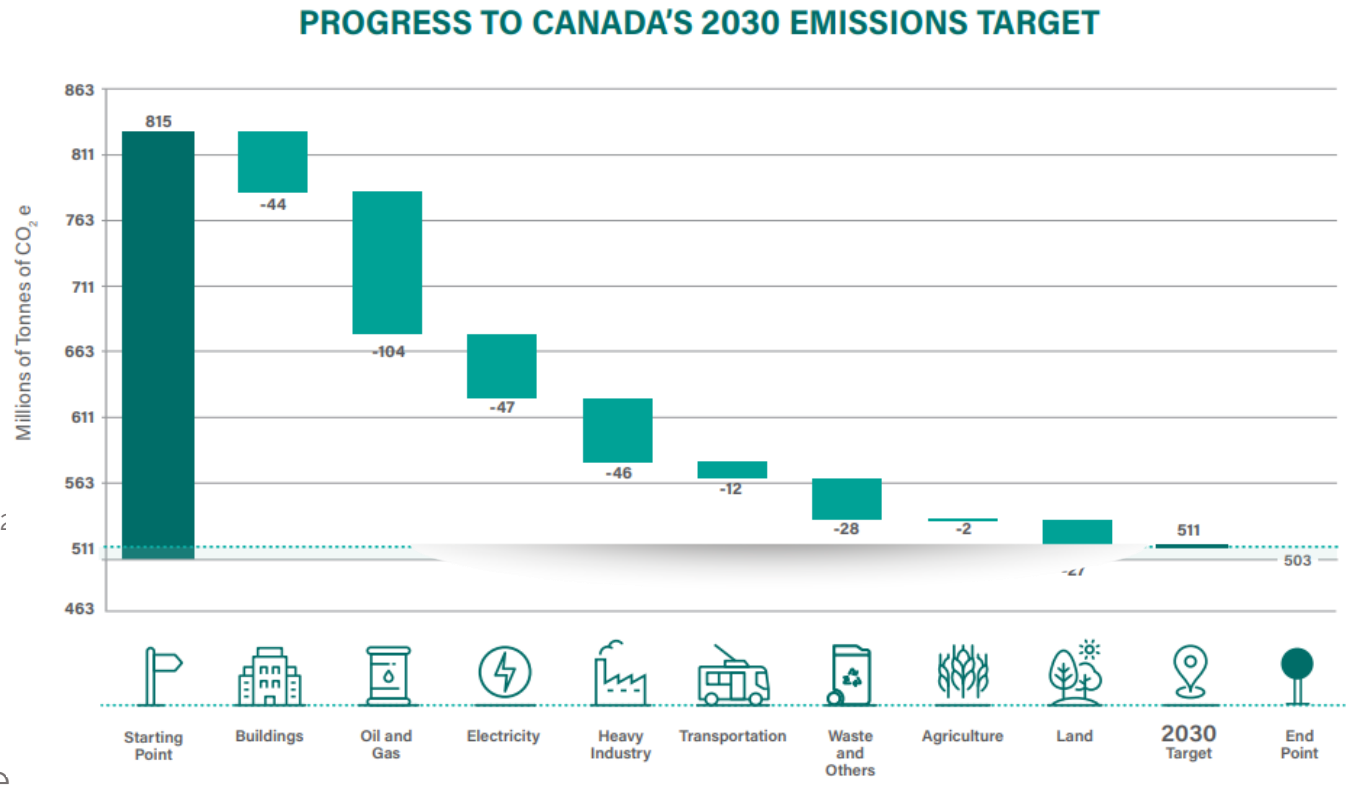
Canadian Climate Policy

- Canada's GHG emissions reduction commitments:
  - 40-45% reduction from 2005 levels by 2030
  - Net-zero emissions by 2050
- Carbon Pricing a key pillar of Canada's climate plan
- Complementary policies for economy wide reductions:
  - Transportation, electricity, forestry, etc.
  - Clean Fuel Regulation to reduce liquid fuel CO_2 intensity
  - Developing offset system
- Investment to rapidly scale-up clean-tech and drive down emissions

Significant gap remains to meet 2050 net-zero target



Significant gaps exist between current emissions and 2030 reduction targets, across all sectors of the Canadian economy.

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Creating a Baseline Through Reporting

- **Accurate reporting** of GHG emissions is essential to understand scale of emissions problems.
- Year over year reporting of full scope 3 emissions is essential to **efficient resource allocation** in abatement efforts.
- In June 2021, US legislation for SEC requirement for TCFD disclosure. Accurate assessments of **climate-related risks require full disclosure** of emissions.

- Only **62%** of companies have reporting mechanisms that meet GHG protocol.
- Only **6.3%** of companies that report GHG emissions through CDP have accepted Scope 3 disclosure.
- No requirement for reporting, nor progress reporting, however, regulation of Scope 1 is coming.
- **Net-Zero is impossible without tackling Scope 3 emissions.**

Without an accurate and consistent baseline indication of emissions, measurement of reduction efforts is problematic.

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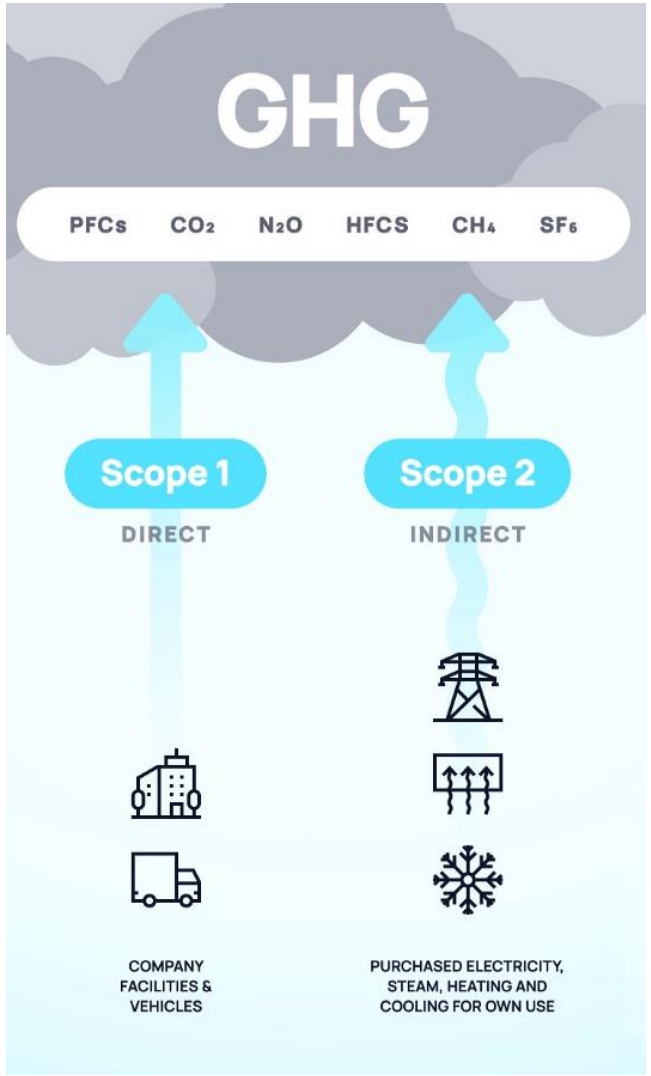
Scope 1 and Scope 2 Emissions

- Scope 1 emissions are all direct company-specific emissions.
- Scope 2 emissions are indirect emissions from energy use.
- While not yet regulated, Scope 1 and Scope 2 are mandatory for disclosure when using frameworks like CDP or TCFD.
- On average, they only account for 15% of overall emissions, with Scope 3 taking the other 85%.
- As of Aug 2021, only 20% of US publicly listed companies disclose emissions data.
- As SEC and other securities regulators move toward mandatory TCFD disclosure, coupled with net-zero commitments, many companies will inadvertently be forced to disclose their emissions data for Scope 1 and Scope 2.
- 32% of emissions come from public investor-owned companies.



Scope 1 and Scope 2 emissions disclosure is an essential part of risk management and is on track for regulated disclosure.

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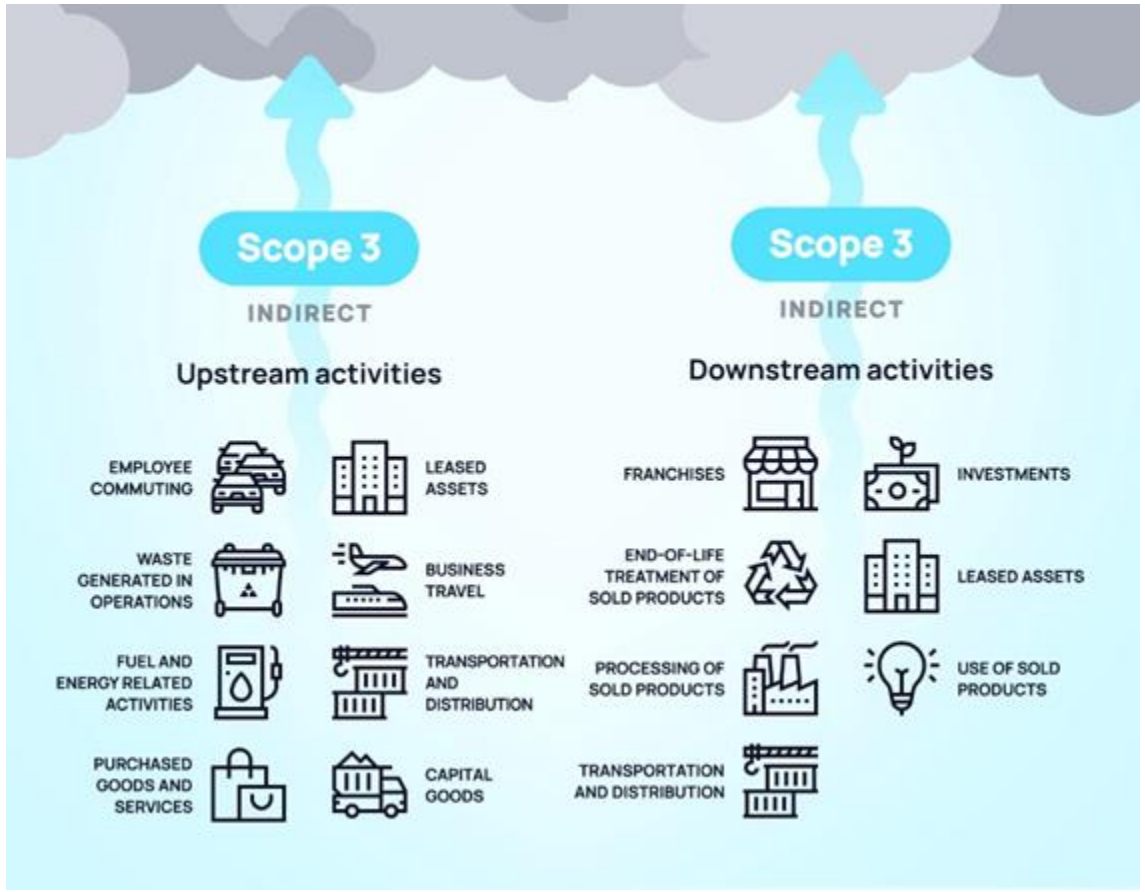
Scope 3: Category Disclosure



Most commonly reported Scope 3 categories:

- **Business Travel**
- **Purchased Goods and Services**
- **Waste Generation in Operations**

Least commonly reported Scope 3 categories:

- **Franchises**
- **Processing of Sold Products**
- **Downstream Leased Assets**

Companies should strive to disclose as many Scope 3 categories as possible, within the relative materiality of their operations.

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The Emissions Elephant in The Room

Greenhouse gas emissions comprise three scopes:

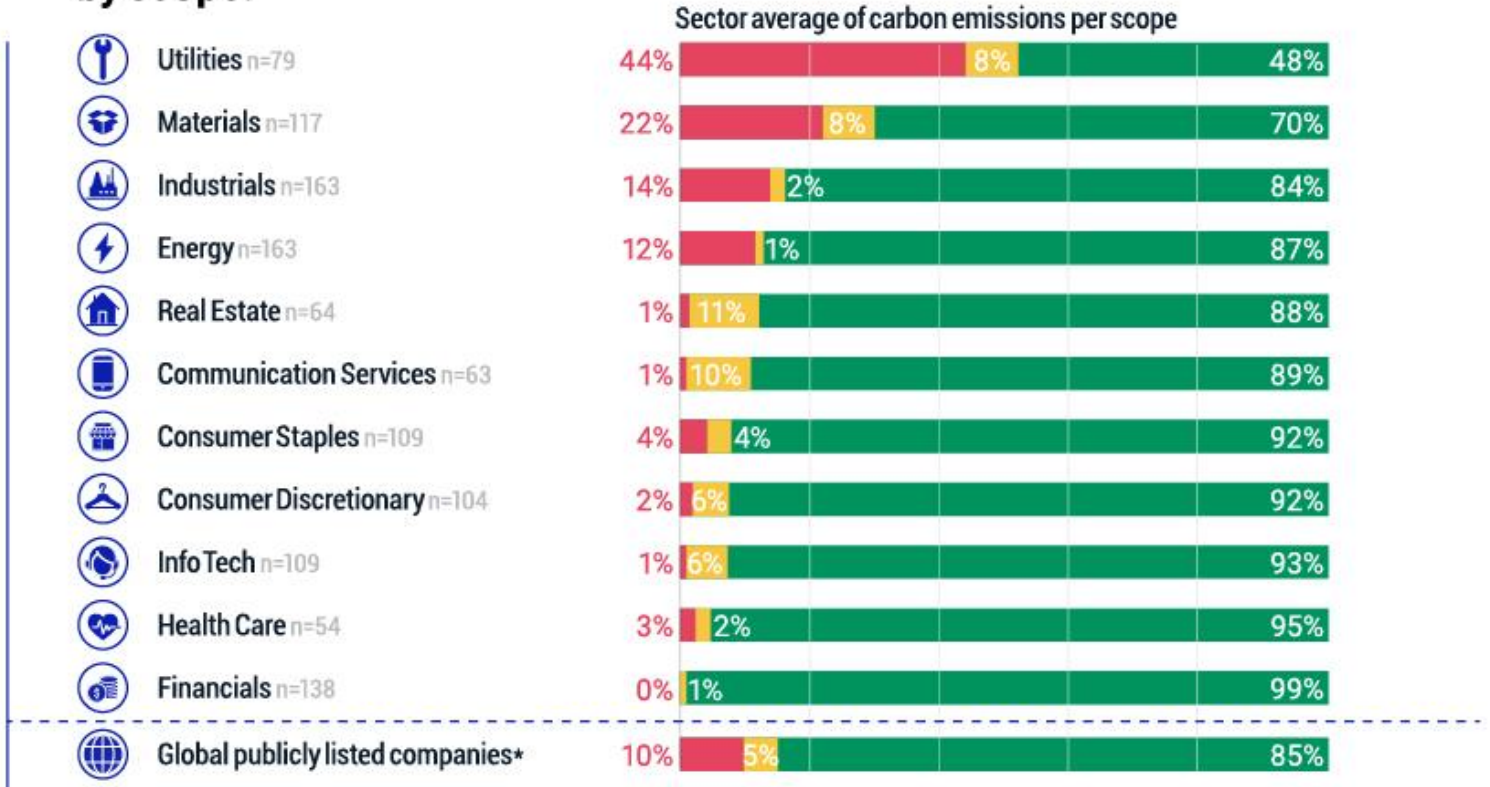
Scope 1
Direct emissions

Scope 2
Indirect emissions from purchased energy

Scope 3
Value-chain emissions, both upstream (supply chain) and downstream (use of a company's products)

Sector emissions by scope:

Scope 3 emissions dominate most companies' carbon footprints



*As indicated by constituents of the MSCI ACWI Index whose Scope 1, 2, and 3 emissions were reported by the companies or estimated by the MSCI Climate Change Metrics Methodology
Source: Carbon Disclosure Project, MSCI ESG Research LLC as of Jan. 5, 2021

Scope 3 emissions represent the greatest proportion of GHG emissions for most companies, across almost all sectors.

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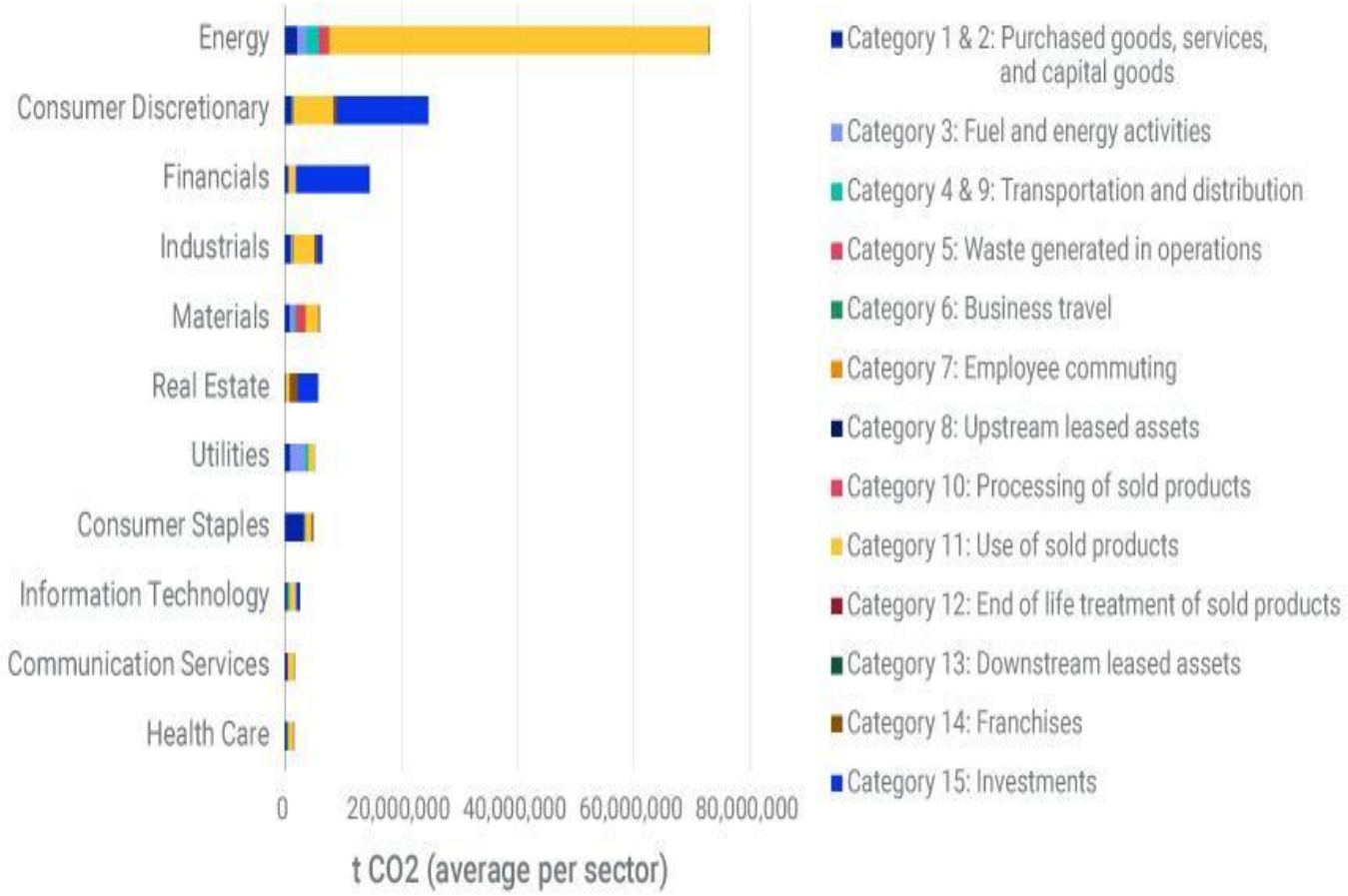
Scope 3 Statistics

- Out of 2000 of the largest publicly-listed companies who have 2050 Net-Zero commitments, only 1/3 include Scope 3 emissions within that pledge.
  - Only 20% meet basic robustness criteria
- Exclusion of scope 3 emissions creates risk
  - Reputational Risk (Greenwashing)
  - Enterprise Valuation Risk (Mispriced assets)
  - Climate Risk (Transition)
- Scope 3 double counting is intentional and serves as proxy for financial risk related to climate change



Scope 3 disclosure up and down the value change is essential for risk management and essential to reach 2050 net-zero goals.

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Scope 3 Target Setting

- Credible Net-Zero goals must include target setting for Scope 3
- Current best practices include Supply Chain Management and joint commitments
    - Both Qualitative vs. Quantitative, depending on sector
- Need to meet SBTi (where sector defined)
- Only 60% of 2000 largest companies have interim targets
- Only 44% of companies have a published plan
- Targets should be reflected in investment decisions. Demand from investors on credible plan to reach targets is increasing rapidly. COP26 has escalated this demand.

- Net-Zero targets require near-term milestones (5-15 years)
- SBTi require target setting to cover at least 2/3 of total Scope 3 emissions.

Companies need to start setting Scope 3 targets now if they are going to recognize their 2050 net-zero goals in the future.

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Net Zero Working Group E-Badge

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WORKING GROUP

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Thank you!

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EXCEL PARTNERSHIP

Greenhouse Gas (GHG) Protocol

What is the GHG Protocol?	The GHG Protocol Corporate Accounting and Reporting Standard is the **global standard for calculating GHG emissions**. It outlines requirements and guidance for companies and other organizations preparing a corporate-level GHG emissions inventory. The standard covers the **accounting and reporting of seven greenhouse gases covered by the Kyoto Protocol** – carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3). It is designed to: • Help companies prepare a GHG inventory that represents a true and fair account of their emissions using standardized approaches and principles • Provide business with information that can be used to build an effective strategy to manage and reduce GHG emissions • Increase consistency and transparency in GHG accounting and reporting among various companies and GHG programs
Reporting principles	GHG accounting and reporting is based on the following principles: relevance, completeness, consistency, transparency, accuracy
Voluntary use	This standard is used to calculate GHG emissions, that are reported via various questionnaires and frameworks.

Source: GHG Protocol – Corporate Standard

Scope 3: Other Indirect Emissions