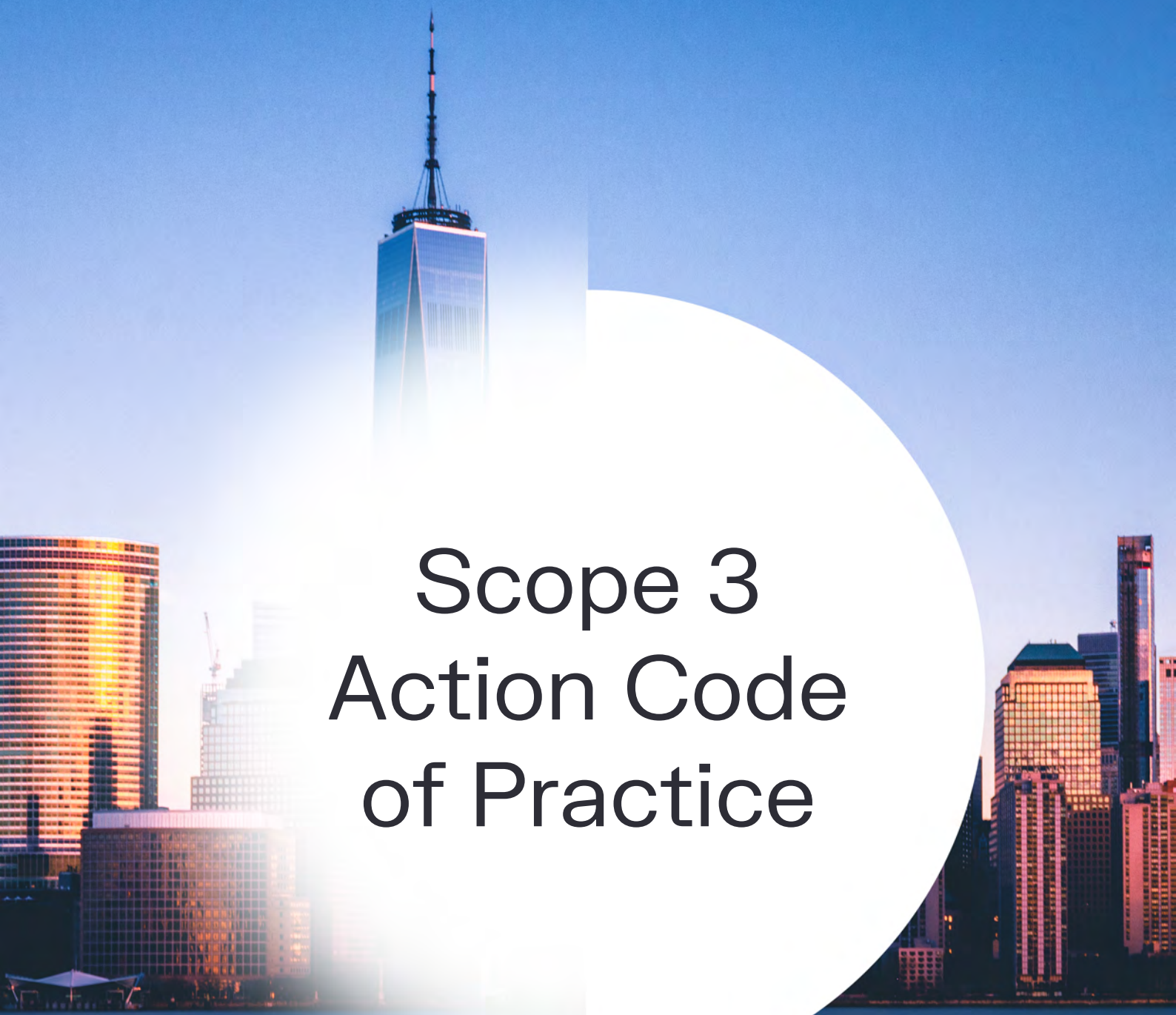
VCMI Voluntary Carbon Markets Integrity Initiative



Scope 3 Action Code of Practice

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Contents

Document History

The Scope 3 Action Code of Practice provides guidance for companies on best practice when facing difficulties in reducing scope 3 emissions. Thorough stakeholder engagement has ensured that the Scope 3 Action Code of Practice has been developed transparently, and with a commitment to best practice at all stages.

To develop the Scope 3 Action Code of Practice, VCMI worked closely with its Expert Advisory Group and Stakeholder Forum, alongside a public consultation run by the British Standards Institution (BSI), and road testing with companies[1] run in collaboration with Boston Consulting Group (BCG) and the World Business Council for Sustainable Development (WBCSD) in 2024 to further refine the document and ensure it is fully operable. A report detailing the feedback received and how it has been addressed in the Scope 3 Action Guidance can be found here.

Although there is currently no formal VCMI claim associated with this guidance, companies can seek to have their fulfilment of the required steps and requirements verified by a credible independent third party assurer and report this accordingly.

Annex B outlines the full development process and timeline.

Version	Change/update description	Publication date
Beta Scope 3 Claim[2]		28 November 2023
Beta Scope 3 Claim – public consultation	Updated requirements, guardrails and parameters used for calculations	02 September 2024
Scope 3 Action Code of Practice	Updates based on feedback from 2024 public consultation and road test with companies	30 April 2025

The Scope 3 Action Code of Practice is designed to promote credible, net-zero-aligned greenhouse gas mitigation by corporates and other organizations, including participation in high-quality voluntary carbon markets. It has been developed through multistakeholder public consultation and road testing. While VCMI encourages use of the Scope 3 Action Code of Practice and its annexes and appendices by all relevant organizations, any and all statements, claims and actions made or taken based fully or partially on the Code are the full responsibility of those engaging in them, whether or not in a way aligned with the recommendations therein. Neither VCMI, nor other individuals and organizations who contributed to the Code and/or its accompanying documents assume responsibility for any consequences or damages, legal or otherwise, resulting directly or indirectly from any use of, or as a result of relying on, the Code. Organizations are recommended to take independent legal advice on their intended use of the Code, including on any communications about their use of the Code or claims based thereon, in each relevant jurisdiction.

1 12 companies joined VCMI in road testing the document. The exercise included answering to polls, performing calculations and sharing companies' perspectives regarding the document on the ease to understand and implement its guidance as well as on the value proposition offered by VCMI, among others.

2 Thorough research and engagement process was conducted to define the final name of the claim. Within that process, interim names were adopted, such as "Scope 3 Flexibility Claim". By November 2023, the claim was released in its beta version, acknowledging more work was still needed to finalize it.

Executive Summary

Executive Summary

Scope 3 emissions can account for as much as 70% of a company's greenhouse gas footprint. However, many companies face barriers[3] in reducing scope 3 emissions in line with a science-aligned decarbonization pathway. The Voluntary Carbon Markets Integrity Initiative's (VCMI) Scope 3 Action Code of Practice provides companies with a practical tool to close the gap between their current emissions and a science-aligned pathway each and every year.

To do so, companies can - subject to clear safeguards - retire high-quality carbon credits, thereby enabling climate action now while they address the barriers to reducing their own scope 3 emissions.

A key objective of the Code is to accelerate climate action, with high-quality carbon credits used in addition to, not as a substitute for, direct decarbonization of scope 3 emissions. With this dual approach of overcoming the barriers to scope 3 emissions reduction and provisioning climate finance through the retirement of high-quality carbon credits, companies can continue to work towards delivering on their climate commitments and accelerate global net zero.

Companies are required to have science-aligned near-term emission reduction targets for scope 3 emissions and calculate the gap between where their emissions are and where they should be. Subject to specific VCMI requirements and guardrails[4] – including a limit on both the maximum size that the emissions gap can be and the period for which carbon credits can be used, in accordance with guidance provided in this Code – and supported by good practice recommendations[5], companies can retire high-quality carbon credits to close that gap. Two approaches are offered to make this calculation: 1) year-on-year; and 2) a carbon budget that covers the period between 1st implementation year[6] and target year.

The Code requires companies to meet a set of Foundational Criteria to demonstrate that they have a robust climate strategy, and to disclose the barriers that prevent them from delivering scope 3 emissions reduction.

The Scope 3 Action Code of Practice and VCMI's Claims Code of Practice follow the same Foundational Criteria. Two Foundational Criteria have been slightly modified to align with evolution in best practice approaches to corporate climate action and providing solutions for immediate, near-term action. The Scope 3 Action Code of Practice is complementary to Carbon Integrity Claims, giving companies a best practice approach while they make progress with their decarbonization trajectory.

As with Carbon Integrity Claims, the Scope 3 Action Code of Practice requires companies to set a science-aligned emission reduction target, follow established measurement and reporting protocols, and use high-quality carbon credits, all independently validated. Companies that are making efforts to reduce scope 3 emissions can use high-quality carbon credits to close the emissions gap while they put in place necessary measures to overcome emissions reduction barriers and align with the trajectory consistent with their climate commitments, until the target year. Most target-setting bodies do not currently allow companies to use carbon credits to meet their emission reduction targets; the Scope 3 Action Code of Practice will enable companies to demonstrate their full commitment to climate action by retiring high-quality carbon credits in an amount at least equal to their excess emissions[7] as they work to meet their reduction targets.

3 Barriers include the cost of decarbonization, difficulties in engaging the supply chain, creditworthiness of suppliers, data limitations, organizational capacity, market timing, availability of renewable energy, lack of information around strategies to reduce scope 3 emissions, broader macro issues (e.g. regional conflict), inflexibility or lack of clarity on target setting and/or disclosure frameworks, lack of access to financing (e.g. lack of external incentives or funding) and governance limitations (e.g. lack of decision making structures) – see The Climate Board (2024). Corporate Engagement with Voluntary Carbon Market Claims: Findings and Recommendations.

4 Guardrails are set as conditions that need to be met to ensure guidance will not be misused by companies.

5 Requirements refer to actions to be implemented by companies as a necessary condition to ensure alignment with the guidance. Recommendations and supporting guidance provide companies with suggestions and additional sources of information to highlight best practice measures that companies should implement or work towards, as presented in VCMI's Claims Code of Practice (VCMI, 2023).

6 The first year a company starts to implement its near-term scope 3 emissions reduction target. It usually coincides with the year in which a company sets its target or the following year.

7 Excess emissions refer to the emissions gap between where emissions should be according to their target and where they currently are.

The Scope 3 Action Code of Practice will enable companies to demonstrate their full commitment to climate action by retiring high-quality carbon credits in an amount at least equal to their excess emissions as they work to meet their reduction targets.

The Scope 3 Action Code of Practice guides companies on how to use high-quality carbon credits to close their scope 3 emissions gap as they implement measures to meet their emission reduction targets. Companies should take action to address their emissions gap each and every year, retiring high-quality carbon credits to close any remaining gap. VCMI recommends that target-setting frameworks adopt this approach.

The Scope 3 Action Code of Practice provides clear guidance to companies, but not the ability to currently make a verified claim. Companies can, however, independently verify the quality of their scope 3 approach against the Scope 3 Action Code of Practice.

Letter from VCMI Chair

On behalf of the Voluntary Carbon Markets Integrity Initiative (VCMI) Steering Committee and Secretariat, I am very pleased to introduce this Scope 3 Action Code of Practice. The Code is designed to provide companies with confidence in a high-integrity approach to using carbon credits to close the 'scope 3 emissions gap'. In addition, it gives governments a blueprint for setting best-practice policy and incentivising increased corporate action for this complex emissions reduction challenge.

A trusted, high-integrity carbon market can make a meaningful contribution to the climate action challenge. It will contribute to the $1.3 trillion finance necessary to support the sustainable low carbon transition of developing economies, it will contribute to the increased achievement of the Sustainable Development Goals, and it can accelerate progress to global net zero. VCMI's work developing Codes of Practice is essential to ensure the integrity of carbon market use. Integrity underpins trust, and trust will underpin increased ambition, scale and impact.

VCMI released a beta version of the Scope 3 guidance in November 2023. Over the last year VCMI has further developed this guidance, working closely with key internal stakeholders, alongside a public consultation run by British Standards Institution (BSI) in September 2024. Additionally, VCMI conducted road testing with companies in November 2024 in collaboration with Boston Consulting Group (BCG) and the World Business Council for Sustainable Development (WBCSD) to ensure the practicability of the Code.

The development of this Code of Practice has included extensive engagement and feedback from our Expert Advisory Group and our Stakeholder Forum. We are grateful for their expertise, input and time in helping us develop a practical, credible framework for action.

We have also worked closely with other standards and partners to align our approaches to corporate climate action, and the integration of carbon market solutions. Our work goes hand in hand with the Integrity Council for the Voluntary Carbon Market (ICVCM)'s Core Carbon Principles (CCPs) which have raised the bar on supply side quality of carbon credits. We will only be able to maximize the impact of carbon finance towards meeting the goals of the Paris Agreement, if we coordinate and complement our efforts across the ecosystem. Consistency and stability is essential to giving companies the confidence to step up and go further, faster.

Research conducted by Ramboll and commissioned by VCMI identified that 65% of companies in the study could implement solutions to address scope 3 decarbonization barriers within five years and another 20% could implement solutions within 10 years. Supply chains are complex and decarbonization cannot always occur immediately or in a smooth, linear path.

With the Scope 3 Action Code of Practice, companies now have clear guidance on how to make credible use of carbon credits to close the gap while companies overcome those barriers. That means that climate action does not pause in the interim. And that's critical right now. We do not have time to pause.

Usha Rao-Monari

VCMI STEERING COMMITTEE CHAIR

Introduction

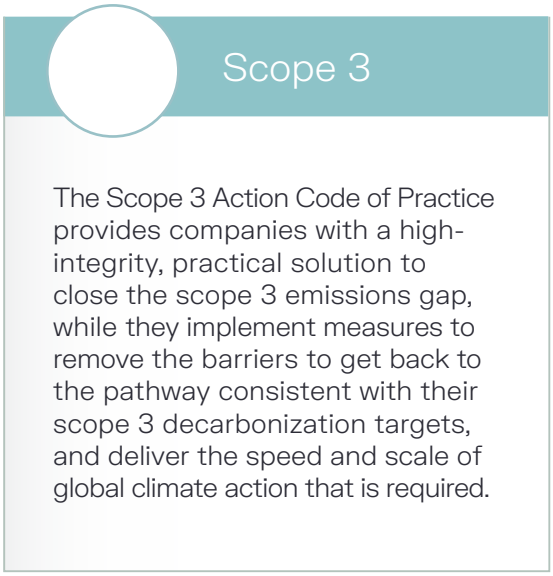
Introduction

Scope 3 emissions – those that occur up and down a company's value chain – are not being reduced at the speed and scale required to meet global climate change goals. While some companies are setting science-aligned targets for scope 3 emissions reductions, a study by CDP and Bain found that 47% of companies are 'well behind' in delivering on their scope 3 targets[8], while analysis by MSCI found that 60% of companies were currently failing to achieve their planned scope 3 reductions[9].

The Voluntary Carbon Markets Integrity Initiative's (VCMI) Scope 3 Action Code of Practice gives companies a practical tool to take action with respect to their current emissions gap. It is designed for companies that are making progress towards their science-aligned and third-party validated near-term scope 1 and scope 2 emission reduction targets but are facing difficulties with scope 3[10]. It requires companies to take time-bound action through retiring high-quality carbon credits in an amount at least equal to their scope 3 emissions gap[11].

The Scope 3 Action Code of Practice is to be used as an additional tool for companies to take action on climate change and demonstrate their commitment to addressing their environmental impact. The world needs emission reductions as soon as possible and every year. This guidance is provided to be used by companies each year between 1st implementation year and target year, and not just at target year. It recognizes companies for the efforts made so far and encourages them to take additional action, by retiring high-quality carbon credits while they implement measures to overcome barriers to reducing scope 3 emissions. Figure 1 presents how companies can communicate they are aligned with the Scope 3 Action Code of Practice.

Figure 1: Scope 3 Action Code of Practice



Companies are required to transparently disclose how far they are from where they were supposed to be, and, subject to specific VCMI requirements and guardrails, and supported by good practice and recommendations, retire high-quality carbon credits.

8 Bain and CDP (2024). The Visionary CEO's Guide to Sustainability 2024.

9 MSCI Carbon Markets (formerly Trove Research) (2023). Using carbon credits to meet corporate climate targets.

10 Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (GHGP, 2011).

11 The scope 3 emissions gap is defined as the difference between the most recently reported scope 3 emissions included in the target boundary and where they need to be on their path to decarbonization to stay consistent with near-term science-aligned target in that same year.

Objectives of the Scope 3 Action Code of Practice

The Scope 3 Action Code of Practice has been designed to:

- Increase companies' ambition through VCMs. Companies that have already set a near-term emission reduction target will be incentivized to set a more ambitious one for the next target implementation period. At the same time, companies that have not yet set an emissions reduction target, may feel encouraged to do so. This will lead to more companies being committed to reduce emissions, so that currently available opportunities to reduce and remove GHG emissions are not lost[12].
- Increase climate action through direct emissions reduction. By adhering to the Scope 3 Action Code of Practice, companies demonstrate climate leadership while addressing barriers that make immediate emissions reduction in the company's value chain difficult. As such, companies will disclose measures already taken and a list of measures to overcome remaining barriers, while taking action for the current emissions gap by retiring high-quality carbon credits. With this, companies will be effectively paying for scope 3 emissions that exceed their target trajectory every single year when an emissions gap occurs.

The Scope 3 Action Code of Practice is underpinned by key parameters that guide high-quality climate action:

- Recognize and encourage progress: Acknowledge companies' efforts and incentivize immediate additional action through the retirement of high-quality carbon credits and implementation of measures to overcome remaining scope 3 emission reduction barriers.
- Set time-bound expectations: Ensure that guidance provided in the Scope 3 Action Code of Practice is time-bound so that companies eliminate their scope 3 emissions gap by 2040[13] and remain on a pathway aligned with their climate commitments.
- Support global mitigation: Mobilize climate finance into faster global emissions reductions and removals through the use of high-integrity voluntary carbon markets.
- Ensure integrity: Establish guardrails to prevent misuse of the Code of Practice and emphasize that carbon credit retirement complements, rather than substitutes internal decarbonization efforts.

Pathway to Near- and Long-term Impact

The Scope 3 Action Code of Practice incentivizes companies to prioritize emissions reductions within their value chain, consistent with the mitigation hierarchy[14]. This is done by requiring companies to publicly disclose the measures they have adopted to reduce scope 3 emissions and the outcomes of these actions, as well as investments in future reductions.

By 2040, companies will be expected to have completely eliminated their scope 3 emissions gap. The use of high-quality carbon credits to close their emissions gap in the interim can enable companies to raise ambition, go beyond their decarbonization targets, and invest in activities that accelerate progress to global net zero.

The Scope 3 Action Code of Practice serves as a stepping stone toward achieving Silver, Gold or Platinum Carbon Integrity Claims, ensuring companies consistently advance towards full decarbonization[15].

12 MSCI Carbon Markets (formerly Trove Research) (2023). Using Carbon Credits to Meet Corporate Climate Targets.

13 Based on Accenture (2024). VCMI: Scope 3 Claim Assessment Final Report.

14 The mitigation hierarchy implies prioritizing the elimination of sources of emissions within the value chain of the company over compensation or neutralization measures – see SBTi (2020). Foundations for science-based net-zero targets setting in the corporate sector. Executive summary.

15 For more details on Carbon Integrity Claims, please refer to the VCMI Claims Code of Practice.

Scope 3 Action Code of Practice

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To align with the Scope 3 Action Code of Practice[16], companies are required to publicly disclose[17]:

- their current scope 3 emissions gap;
- measures already taken to enable scope 3 emissions reductions and results obtained;
- the main current and anticipated barrier(s)[18] and explanation on how they impede progress to targets;
- a list of measures to overcome remaining barriers; and
- the expected timeframe and emissions reductions to close the emissions gap.

Companies are also required to retire high-quality carbon credits in an amount equal to at least their entire scope 3 emissions gap. The emissions gap is defined as the difference between a company's scope 3 emissions in the most recent reporting year and where they need to be to stay consistent with their near-term science-aligned target. The scope 3 emissions gap to be closed by high-quality carbon credits cannot be more than 25% of the company's total scope 3 emissions trajectory.

16 'High ambition and high integrity' principles of VCMI Claims Code of Practice also apply to the Scope 3 Action Code of Practice and can be accessed in Section A of the Background Document.

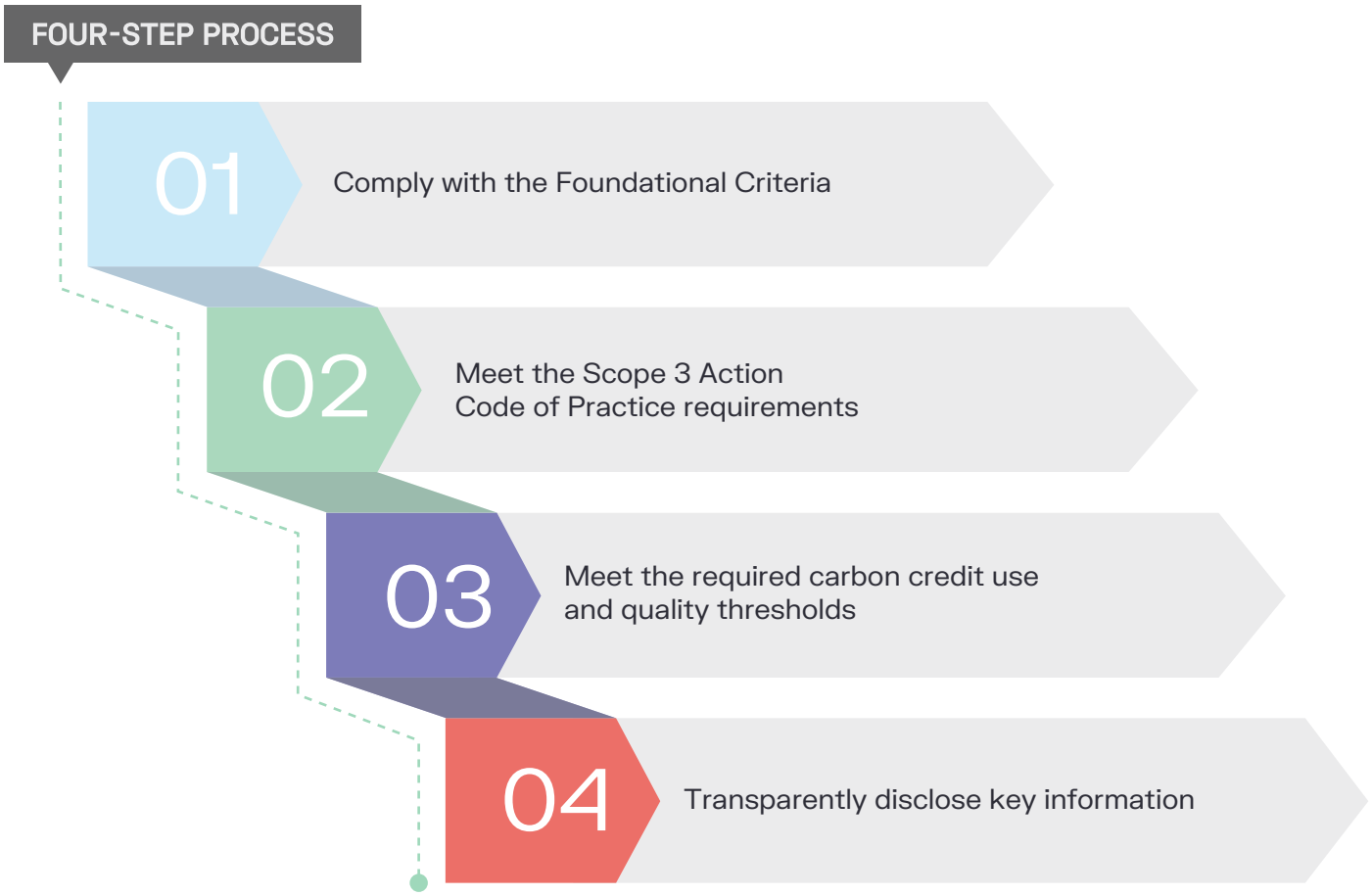
17 Requirements for companies to publicly disclose or publicly provide documents or information mean they need to publish that specific information or document requested in the public domain (e.g. on the company's website).

18 Barriers may change through time as the economy, technology, operating environment, demand and emissions levels also shift.

The four-step process which companies shall follow to comply with the Scope 3 Action Code of Practice, including guidance on how to calculate the scope 3 emissions gap, is detailed below.

FOUR-STEP PROCESS

Figure 2: Scope 3 Action Code of Practice – Four-step process



STEP 1: COMPLY WITH THE FOUNDATIONAL CRITERIA

The Foundational Criteria as set out in the Claims Code of Practice apply to all VCMI guidance and Claims. They are aligned with the long-term goals of the Paris Agreement, representing corporate best practice.

Before retiring high-quality carbon credits and aligning with the Scope 3 Action Code of Practice, companies shall adhere to all Foundational Criteria:

1. maintain and publicly disclose an annual GHG emissions inventory;
2. set and publicly disclose science-aligned near-term emission reduction targets, consistent with reaching net-zero emissions no later than 2050*;
3. demonstrate that the company is making progress on financial allocation, governance, and strategy towards meeting a near-term emission reduction target; and
4. demonstrate that the company's public policy advocacy supports the goals of the Paris Agreement and does not represent a barrier to ambitious climate regulation.

Specific requirements are presented for each Foundational Criterion in the Claims Code. For more details, please refer to the VCMI Claims Code of Practice.

*Companies are required to follow the most up-to-date criteria for setting near-term emission reduction targets from a credible science-aligned target-setting framework, consistent with the goals of the Paris Agreement. The framework shall be used for setting the target boundary[19] and emissions coverage[20]. This coverage for scope 3 emissions is what is referred to in this document as *scope 3 emissions included in the target boundary*.

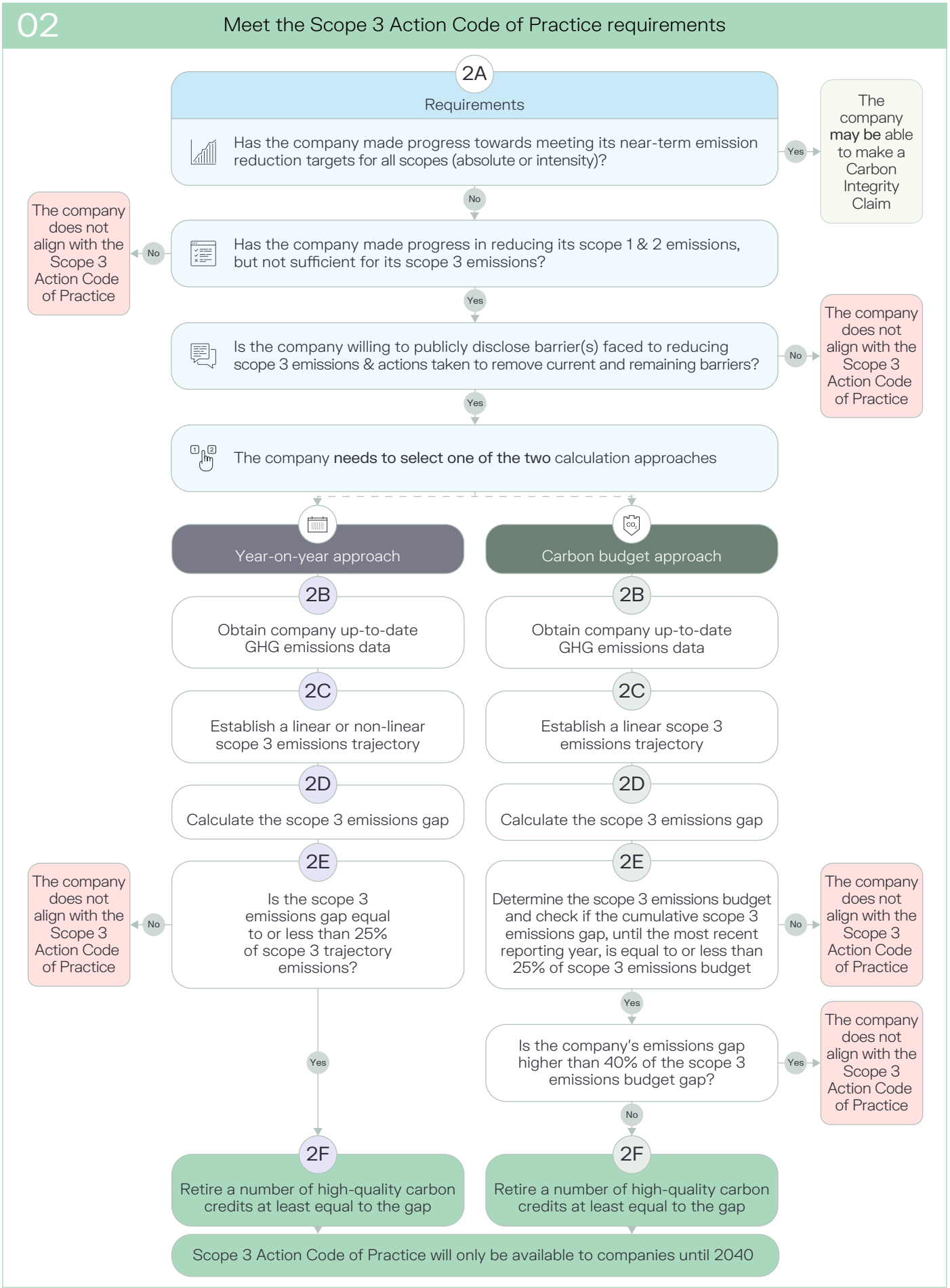
STEP 2: MEET THE SCOPE 3 ACTION CODE OF PRACTICE REQUIREMENTS

Once a company has met the Foundational Criteria, it needs to assess whether it meets the Scope 3 Action Code of Practice requirements and apply one of the calculation approaches as outlined in the decision tree presented in Figure 3, and further detailed in this section.

19 The activities and their associated emissions that are included in a target in the target base year and subsequent years within the timeframe of the target (SBTi, 2024)

20 Emissions coverage (or target boundary coverage) expresses the target boundary as the percentage of emissions in the target boundary out of the total. This total can include one or multiple emissions scopes and categories and may vary depending on the accounting year (SBTi, 2024). An example of how the emissions coverage may be set can be found in SBTi (2024) Corporate Near-Term Criteria Version 5.2

Figure 3: Scope 3 Action Code of Practice – Step 2 methodology decision tree



Note: Figure 3 illustrates Step 2 of the methodology, with each step (A–E) labelled and linked to the corresponding sections.

2A REQUIREMENTS AND RECOMMENDATIONS

Companies are required to demonstrate progress towards meeting their near-term scope 1 and scope 2 emissions reduction targets, through publicly disclosing:

- the percentage of emissions reductions achieved in GHG emissions for scope 1 and scope 2 in the most recent reporting year in comparison to the base year (i.e. base year used in the near-term target). These reductions can be demonstrated either on an absolute or intensity basis; and
- an explanation and evidence that outlines whether and how the company has made progress towards meeting its scope 1 and scope 2 near-term emission reduction targets.

Companies are also required to publicly disclose:

- the main current and anticipated barrier(s) faced to reducing scope 3 emissions and explain how they impede progress towards their near-term scope 3 emissions reduction target. Companies shall also disclose why they consider those to be the main barriers;
- actions already taken to remove scope 3 emission reduction barriers and the impact achieved on current emissions; and
- a list of measures designed to overcome remaining barriers. Companies need to provide an estimated timeline for overcoming the disclosed scope 3 emission reduction barriers, which should be no later than 2040.

In addition, companies are recommended to:

- quantify the emissions impact of scope 3 emission barriers, if possible; and
- report on indicators drawn from climate transition plans related to financial planning and value chain engagement[21].

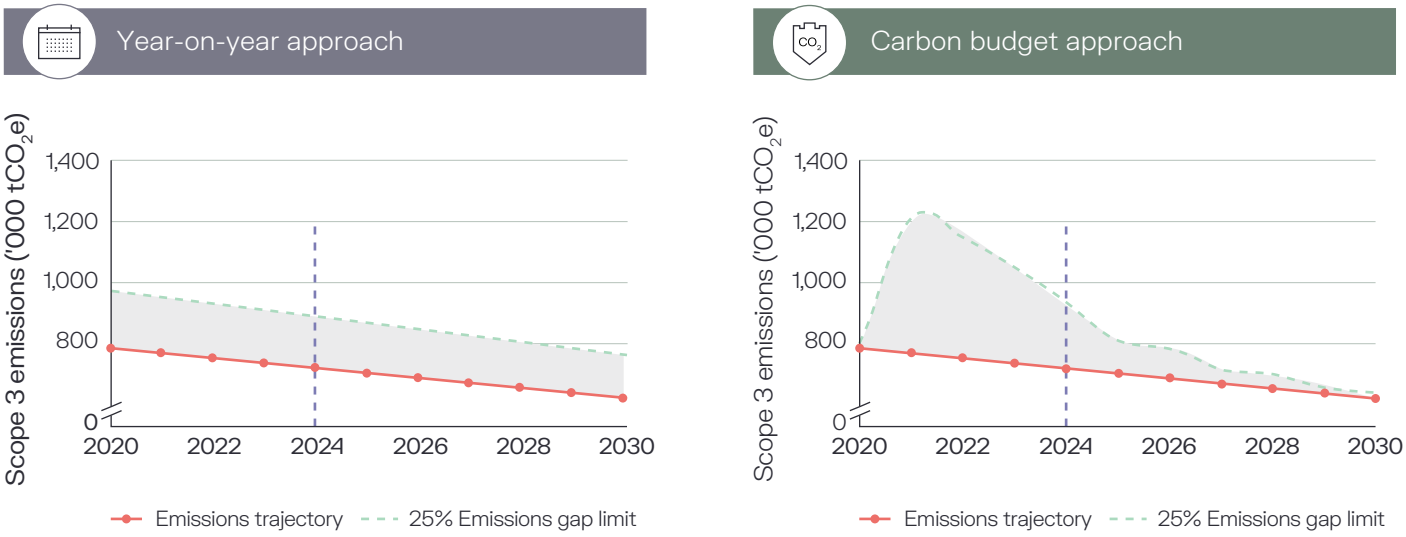
Once the requirements are met, companies need to select one of the two calculation approaches available for determining a company's scope 3 emissions gap, as illustrated in Figure 4:

1. a year-on-year approach, through which the limit of the emissions gap is calculated each year a company aligns with the Scope 3 Action Code of Practice; and
2. a carbon budget approach, through which the limit of the emissions gap is calculated upfront for the company's near-term target implementation period.

Once selected, the chosen approach shall be adopted until the target year, so companies cannot shift from one to another until the next near-term target is established.

21 VCMI acknowledges that climate transition plans are a vital tool for organizations to demonstrate their climate action and commitment. Research and analysis have been conducted by VCMI across relevant climate transition plan frameworks, including those of CDP, Climate Action 100+, Glasgow Financial Alliance for Net Zero (GFANZ) and Transition Plan Taskforce, to shortlist key indicators for monitoring the implementation of the list of measures established by companies to overcome scope 3 emission barriers. The intent was to consider indicators which allowed for an analysis of companies' transition plans implementation that was not restricted to emissions reduction data. Allocating financial resources and making plans to resource the current and planned activities set out in the list of measures, are crucial. Value chain engagement with suppliers by asking them to meet environmental requirements as part of the organization's purchasing process and establishing a percentage procurement from low-carbon suppliers that should be met could contribute to lower the company's scope 3 emissions. However, as the disclosure on those indicators is still a quickly evolving space, with currently low uptake from companies worldwide in reporting on them, VCMI will continue to monitor the progress of this work and align with best practice once it becomes widely adopted.

Figure 4: Calculation approaches for estimating the emissions gap



Note: The gray-colored areas in both graphs are equivalent and represent the cumulative scope 3 emissions gap permitted given the limit established. The numbers on the y axes are hypothetical and serve as examples.

Approach 1 - Year-on-year

In order to align with the Scope 3 Action Code of Practice, companies need to ensure that:

- the scope 3 emissions gap is less than 25% of the scope 3 trajectory emissions[22] in the year the company has chosen to follow the Code of Practice guidance; and
- their scope 3 emissions gap is eliminated by 2040 at the latest, by implementing the list of measures to overcome remaining barriers (Step 2A), as will have been previously disclosed.

To be able to meet the requirements and perform the necessary calculations, companies shall:

[B] obtain company up-to-date GHG emissions data;

[C] establish a linear or non-linear scope 3 emissions trajectory;

[D] calculate the scope 3 emissions gap;

[E] check if the scope 3 emissions gap is equal to or less than 25% of the scope 3 trajectory emissions; and

[F] retire high-quality carbon credits.

Scope 3 Action Code of Practice – Annexes contain examples illustrating the calculations needed.

2B OBTAIN COMPANY UP-TO-DATE GHG EMISSIONS DATA

Companies have to obtain data relating to:

- base year and target year;
- base year emissions;
- target reduction, in percentage terms; and
- most recently reported scope 3 emissions included in the target boundary.

2C ESTABLISH A LINEAR OR NON-LINEAR SCOPE 3 EMISSIONS TRAJECTORY

Companies shall determine a scope 3 GHG emissions trajectory consistent with their science-aligned target[23]. For the year-on-year approach, companies can use both linear and non-linear trajectories.

Linear trajectory

A linear trajectory – between base year and target year – may be used and needs to be provided by the company based on its science-aligned near-term target.

To obtain the linear scope 3 trajectory emissions included in the target boundary for a given year, companies can apply Equation 1 (or, equivalently, companies with a target set according to the Science Based Targets Initiative – SBTi's requirements and criteria, can use the "calculations" sheet within their SBTi target-setting tool[24]):

[Equation 1]

$$\text{Scope 3 trajectory emissions included in the target boundary (t)} = \text{base year emissions} \times \left(1 - \text{target reduction} \times \left(\frac{t}{T}\right)\right)$$

Where:

t = number of years since base year[25], where t = T in the target year;

T = number of years between base year and target year;

Target reduction = base year emissions − target year emissions, in percentage terms.

22 Trajectory emissions are defined as the emissions indicated by a company's emissions trajectory, consistent with its net-zero commitment in the year the company is adopting the guidance for.

23 SBTi (2021). Pathway-to-Net-Zero.pdf (sciencebasedtargets.org).

24 SBTi (2024). Using the corporate near-term tool (version 2.3). Available at https://sciencebasedtargets.org/resources/files/SBTi-target- setting-tool.xlsx.

25 For example, company A, with a 10-year target timeframe (2020–2030) in 2024, is counted as t = 4.

Non-linear trajectory

VCMI recognizes that many companies' emissions do not follow a linear trajectory and, in some cases, may increase in a given year as a result of factors outside their control, such as changing practices, product lines and suppliers, adoption of new technologies, sales and acquisitions.

If companies choose to use a non-linear scope 3 emissions trajectory, the cumulative emissions resulting from this trajectory shall not be greater than the cumulative emissions that would have resulted from a linear trajectory to ensure alignment with the Intergovernmental Panel on Climate Change - IPCC mitigation pathways assumptions[26].

Companies can use other credible non-linear pathways if they are derived from a science-aligned, robust, emissions reduction trajectory. If a company uses this option, it will need to provide details on the methodology and underlying assumptions used to build the trajectory, publicly disclosing the information on its website so it can be assured.

2D CALCULATE THE SCOPE 3 EMISSIONS GAP

The scope 3 emissions gap is defined as the difference between the most recently reported scope 3 emissions included in the target boundary and where they need to be on their path to decarbonization to stay consistent with near-term science-aligned target in that same year. Equation 2 is to be used to calculate the emissions gap:

[Equation 2]

Scope 3 emissions gap (t)
= most recently reported scope 3 emissions included in the target boundary
− scope 3 trajectory emissions included in the target boundary (t)

2E CHECK IF THE SCOPE 3 EMISSIONS GAP IS EQUAL TO OR LESS THAN 25% OF THE SCOPE 3 TRAJECTORY EMISSIONS

To check whether the scope 3 emissions gap does not exceed 25% of a company's scope 3 trajectory emissions included in the target boundary in the year it is aligning with the Scope 3 Action Code of Practice, companies shall apply Equation 3.

[Equation 3]

Scope 3 emissions gap (t) ≤ (scope 3 trajectory emissions included in the target boundary (t) × 25%)

2F RETIRE HIGH-QUALITY CARBON CREDITS

Companies are required to retire high-quality carbon credits in a number at least equal to the total scope 3 emissions gap.

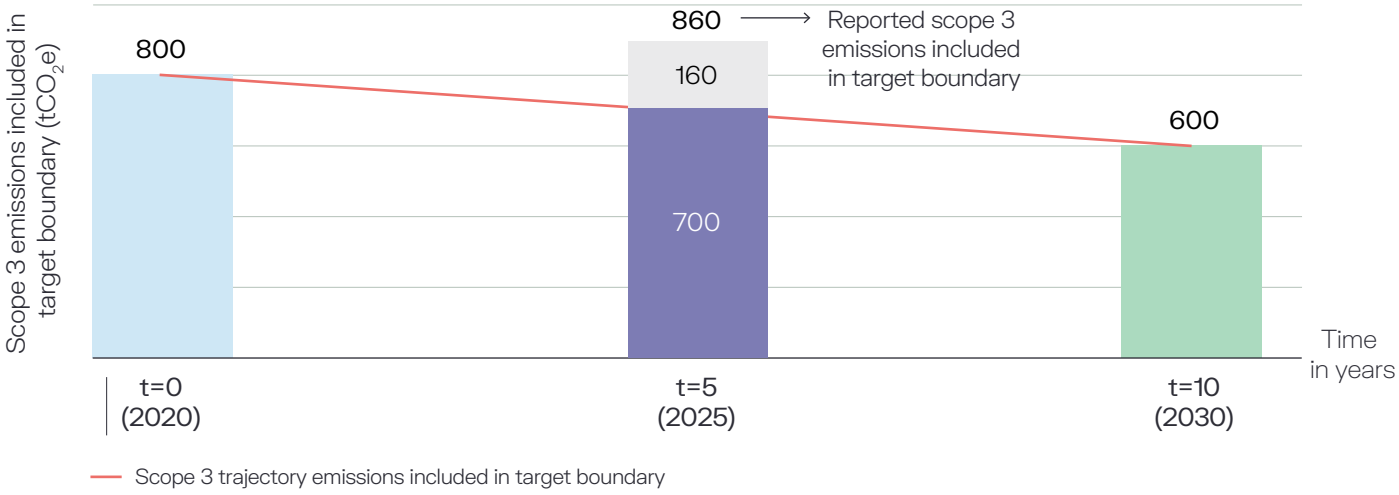
Figure 5 shows a simplified example of Steps 2B to 2F to ensure the scope 3 emissions gap is equal to or less than 25% of the scope 3 trajectory emissions using the year-on-year approach. It also serves to calculate the required amount of high-quality carbon credits to be retired.

26 IPCC (2024). Mitigation pathways compatible with long-term goals; SBTi (2024). SBTi Corporate Net-Zero Standard.

Figure 5: Emissions gap limit for the year-on-year approach (example for year 2025)

Example: Company A – Approach 1: Year-on-year

Is the company aligned with the Scope 3 Action Code of Practice in 2025 (t=5)?



2B Base year 2020; Target year: 2030; Base year emissions: 800 tCO_2e;
Target reduction: 25% by 2030; scope 3 emissions included in the target boundary (2025):
860 tCO_2e

2C Scope 3 trajectory emissions = 800 x (1 – (25% x (5/10)) = 800 x 0,875 = **700** tCO_2e

2D Scope 3 emissions gap = 860 – 700 = **160** tCO_2e

2E Scope 3 emissions gap ≤ Scope 3 trajectory emissions (t=5) x 25%
160 ≤ 700 x 25% → 160 ≤ 175 ✓

2F Company A is aligned with the Scope 3 Action Code of Practice in 2025.
It will need to retire at least 160 high-quality carbon credits and follow Steps 3 and 4.

Approach 2 - Carbon budget

In order to align with the Scope 3 Action Code of Practice, companies need to ensure that:

- The cumulative scope 3 emissions gap through the entire implementation period of the target does not exceed 25% of a company's scope 3 emissions budget[27] for the same period.
- To prevent companies from using an excessive amount of the emissions budget early on, an annual limit on the budget to be used was set: the emissions gap in any given year cannot exceed 40% of the scope 3 emissions budget gap.[28]
- Their scope 3 emissions gap will have been closed by 2040 at the latest, by implementing the list of measures to overcome remaining barriers (Step 2A), as will have been previously disclosed.

It should be noted that any company that has an emissions gap greater than 25% in early years would have to significantly reduce the gap in later years to continue to be aligned with the Scope 3 Action Code of Practice. Companies will not be able to seek alignment with the Scope 3 Action Code of Practice after 2040.

To be able to meet requirements and perform the calculations needed, companies shall:

[B] obtain company up-to-date GHG emissions data;

[C] establish a linear scope 3 emissions trajectory;

[D] calculate the scope 3 emissions gap;

[E] determine the scope 3 emissions budget and check if the cumulative scope 3 emissions gap is equal to or less than 25% of scope 3 emissions budget; and

[F] retire high-quality carbon credits.

Scope 3 Action Code of Practice – Annexes presents examples illustrating the calculations needed.

2B OBTAIN COMPANY UP-TO-DATE GHG EMISSIONS DATA

Companies have to obtain data relating to:

- base year, 1st implementation year and target year;
- base year emissions;
- target reduction, in percentage terms; and
- reported scope 3 emissions included in the target boundary from 1st implementation year until most recently reported year.

2C ESTABLISH A LINEAR SCOPE 3 EMISSIONS TRAJECTORY

A linear trajectory – between the company's base year and target year – can be assumed and provided by the company.

To obtain the linear scope 3 trajectory emissions included in the target boundary for the specific year a company wishes to align with the Scope 3 Action Code of Practice, companies can apply Equation 4 (or, equivalently, companies with an SBTi target can use the "calculations" sheet in their SBTi target-setting tool[29]):

27 Scope 3 emissions budget is defined as the implied cumulative emissions from a company if it was to follow a linear trajectory between base year and target year emissions. The accountable period starts only on the first year of implementation of the target.

28 Scope 3 emissions budget gap is defined as 25% of the scope 3 emissions budget in the Scope 3 Action Code of Practice.

29 SBTi (2024). Using the corporate near-term tool (version 2.3). Available at https://sciencebasedtargets.org/resources/files/SBTi-target-setting-tool.xlsx.

[Equation 4]

Scope 3 trajectory emissions included in the target boundary (t)
= base year emissions × $\left(1 - \text{target reduction} \times \left(\frac{t}{T}\right)\right)$

Where t is the number of years since base year[30], and t = T in the target year.

T = number of years between base year and target year.

Target reduction = base year emissions – target year emissions, in percentage terms.

Though VCMI recognizes that many companies' emissions do not follow a linear trajectory, the carbon budget approach allows companies to incorporate scope 3 emissions fluctuations during the target implementation period through the use of different amounts of that budget over time. In this sense, a linear trajectory is assumed for calculation purposes, but emissions are not expected to be reduced linearly over time and can fluctuate without compromising the ability of a company to align with the Scope 3 Action Code of Practice.

2D CALCULATE THE SCOPE 3 EMISSIONS GAP

The scope 3 emissions gap is defined as the difference between the most recently reported scope 3 emissions included in the target boundary and where they need to be on their path to decarbonization to stay consistent with their near-term science-aligned target in that same year.

Equation 5 is to be used to calculate the emissions gap:

[Equation 5]

Scope 3 emissions gap (t)
= most recently reported scope 3 emissions included in the target boundary
– scope 3 trajectory emissions included in the target boundary (t)

2E DETERMINE THE SCOPE 3 EMISSIONS BUDGET AND CHECK IF THE CUMULATIVE SCOPE 3 EMISSIONS GAP IS EQUAL TO OR LESS THAN 25% OF SCOPE 3 EMISSIONS BUDGET

To determine the scope 3 emissions budget, companies shall use the calculation provided in Equation 6, which considers cumulative emissions under a linear trajectory between 1st implementation year[31] and target year. These cumulative emissions represent the budget.

[Equation 6]

$$\text{Scope 3 emissions budget} = \sum_{t=1^{st}\ \text{implementation year}}^{t=T=\text{Target year}} \text{Base year emissions} \times \left(1 - \text{target reduction} \times \left(\frac{t}{T}\right)\right)$$

Where t is time and on base year t = 0. It should be noted that cumulative emissions only start to be accounted for from t = 1st implementation year.

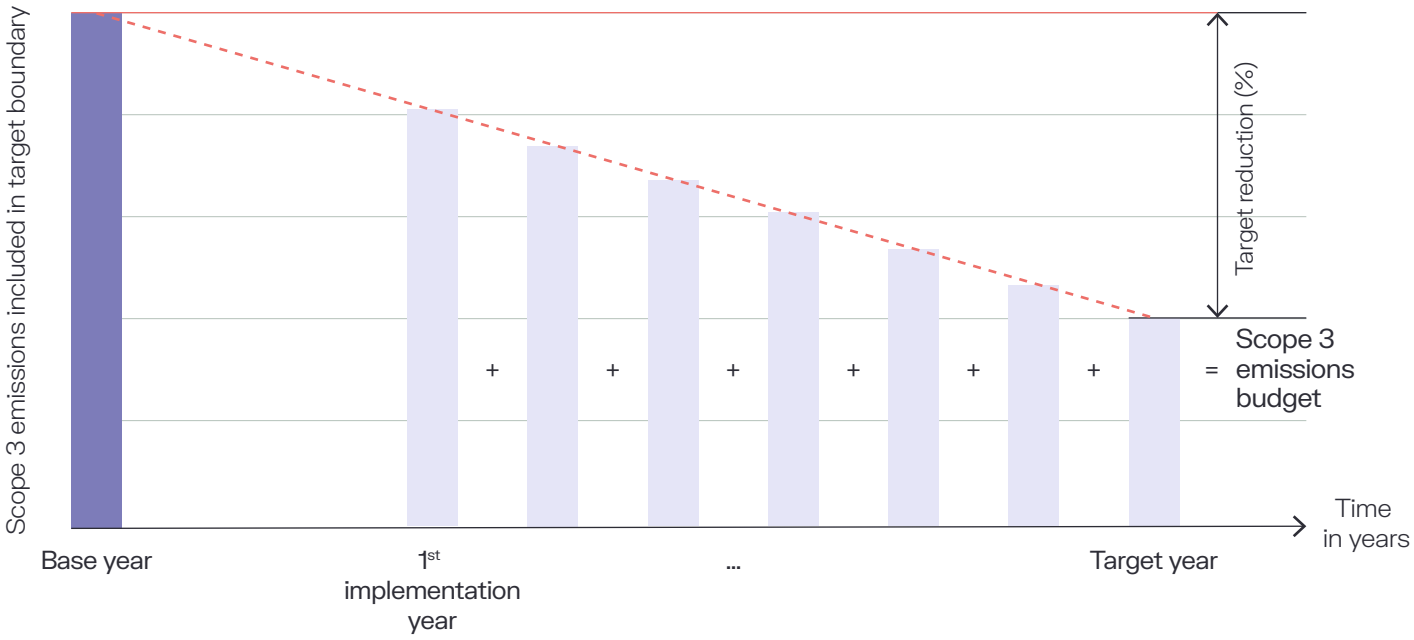
Target reduction = base year emissions – target year emissions, in percentage terms.

30 For example, company A, with a 10-year target timeframe (2020-2030) in 2024, is counted as t = 4.

31 The 1st implementation year takes place after the base year. In the example shown in Figure 7, the 1st implementation year is in t=2 (as in 2022).

Figure 6 illustrates this calculation:

Figure 6: Scope 3 emissions budget calculation



The cumulative scope 3 emissions gap, until most recent reporting year, shall not exceed 25% of the company's scope 3 emissions budget of the entire implementation period (Equation 6), as presented in Equation 7.

[Equation 7]

$$\sum_{t=1^{st}\text{ implementation year}}^{t=\text{Most recent reporting year}} \text{Scope 3 emissions gap (t)} \leq \text{scope 3 emissions budget} \times 25\%$$

Additionally, to ensure that an excessive amount of the scope 3 emissions budget is not used early on, an annual limit on the budget to be used was set: the emissions gap in any given year cannot exceed 40% of the scope 3 emissions budget gap. Companies, thus, shall respect the restriction observed on Equation 8:

[Equation 8]

Scope 3 emissions gap (most recent reporting year) ≤ Scope 3 emissions budget gap × 40%

If a company's emissions gap is higher than 25% in early years, it will need to be significantly reduced in later years to continue being aligned with the Code.

2F RETIRE HIGH-QUALITY CARBON CREDITS

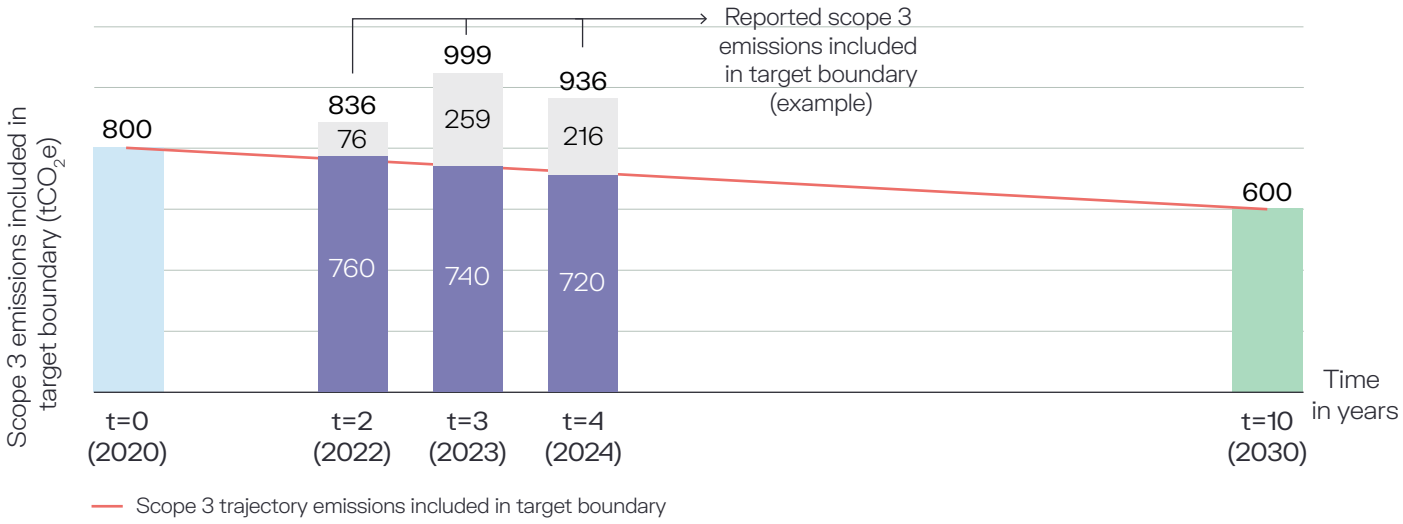
Companies are required to retire high-quality carbon credits in a number at least equal to the total scope 3 emissions gap observed in the most recent reporting year.

Figure 7 shows a simplified example of Steps 2B to 2F to check if the cumulative scope 3 emissions gap is equal to or less than 25% of the scope 3 emissions budget, using the carbon budget approach. In addition, it is used to calculate the required amount of high-quality carbon credits to be retired.

Figure 7: Emissions gap limit for the carbon budget approach (example for year 2024)

Example: Company A – Approach 2: Carbon budget (Year = 2024)

Is the company aligned with the Scope 3 Action Code of Practice in 2024 (t=4)?



2B Base year 2020; 1st Implementation year: 2022; Target year: 2030;
Base year emissions: 800 tCO_2e; Target reduction: 25%; reported scope 3 emissions included in the target boundary: 836 tCO_2e (t=2), 999 tCO_2e (t=3), 936 tCO_2e (t=4).

2C Scope 3 trajectory emissions
(t=2) = 800 x (1 – (25% x (2/10)) = **760** tCO_2e
(t=3) = 800 x (1 – (25% x (3/10)) = **740** tCO_2e
(t=4) = 800 x (1 – (25% x (4/10)) = **720** tCO_2e

2D Scope 3 emissions gap (t=2) = 836 – 760 = **76** tCO_2e
(t=3) = 999 – 740 = **259** tCO_2e
(t=4) = 936 – 720 = **216** tCO_2e

2E Scope 3 emissions budget =

$$\sum_{t=1^{st}\ \text{implementation year}=2022}^{t=T=2030} 800\times\left(1-0.25\times\left(\frac{t}{T}\right)\right) = \mathbf{6120}\ tCO_2e$$

[Guardrail]
$\sum_{t=1}^{t=4}$ Scope 3 emissions gap (t) ≤ (Scope 3 emissions budget x 25%)
Applying the results obtained in Step 2D (scope 3 emissions gap), the scope 3 emissions budget (which results from the sum of trajectory emissions for the entire implementation period) and target reduction presented in Step 2B, would lead to:
(76 + 259 + 216) ≤ 6120 x 0.25
551 ≤ 1,530 ✓ (1,530 - 551 = 979 tCO_2e to be used in following years)

[Guardrail]
Scope 3 emissions gap (t=4) ≤ Scope 3 emissions budget gap x 40%
216 ≤ 6120 x 0.25 x 0.40
216 ≤ 612 ✓

2F Company A is aligned with the Scope 3 Action Code of Practice in 2024.
It will need to retire at least 216 high-quality carbon credits and follow Steps 3 and 4.

In addition to the examples presented in the Scope 3 Action Code of Practice – Annexes, VCMI has provided a workable spreadsheet on its website to facilitate companies' calculations.

STEP 3: MEET THE REQUIRED CARBON CREDIT USE AND QUALITY THRESHOLDS

Companies shall retire high-quality carbon credits.

REQUIREMENTS FOR THE RETIREMENT OF HIGH-QUALITY CARBON CREDITS

Companies shall retire the Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles-labelled credits or Article 6.4 credits issued under methodologies approved by the Article 6.4 Supervisory Body when they become available. Further details on these mechanisms are outlined below. VCMI acknowledges that at the time of publication, these credits are in limited supply and therefore has outlined interim options (available until 1 January 2026) for carbon credit procurement in the section below.

1. ICVCM Core Carbon Principles (CCP) labelled credits

   Companies shall retire Core Carbon Principles (CCP)-labelled credits when they become available. These CCPs have been published by ICVCM, which is an independent governance body for high-integrity voluntary carbon markets that provides a benchmark for carbon credit quality. The CCP label is designed to set and maintain a global threshold standard for quality in the voluntary carbon market, making it easier for buyers to identify carbon credits that represent real and verifiable climate impact, based on the latest science and best practices. The VCMI Claims Code of Practice Box 4 provides details of these CCPs.

   The ICVCM has developed a robust framework for assessing the conformity of carbon crediting programs and methodologies with its CCP Assessment Framework. It announced the first wave of CCP-eligible programs and CCP-approved methodologies in 2024. Further information on the ICVCM assessment process and a list of eligible programs and methodologies can be found on the ICVCM website.

2. Article 6.4 credits

   Article 6 of the Paris Agreement sets out how countries can pursue voluntary cooperation to reach their climate targets. It enables international cooperation to tackle climate change and unlock financial support for developing countries.

   Specifically, Article 6.4 establishes a new international carbon crediting mechanism, also known as the Paris Agreement Crediting Mechanism (PACM). It has a Supervisory Body tasked with developing and supervising the requirements and processes needed to operationalize the mechanism. This includes developing and/or approving methodologies, registering activities, accrediting third-party verification bodies, and managing the Article 6.4 Registry. The first methodologies under this centralized, UN-backed Paris Agreement Crediting Mechanism are anticipated by mid-2025.

   Carbon credits issued under the PACM are called Article 6.4 Emission Reductions (A6.4 ERs). A6.4 ERs under methodologies approved by the Article 6.4 Supervisory Body will hereinafter be referred to as A6.4 credits. When they are not authorized by countries for use toward another country's NDC or other international mitigation purposes they are known as mitigation contribution units.

INTERIM OPTIONS AVAILABLE UNTIL JANUARY 1 2026:

At the time of publication, CCP-labelled credits are in limited supply as ICVCM continues it assessments of programs and categories. Additionally, Article 6.4 credits are not yet available. Therefore, VCMI offers companies two interim approaches to demonstrate the procurement of high-quality carbon credits. These options can only be used until 1 January 2026, or until CCP-labelled or Article 6.4 credits become widely available in the market, whichever is the earlier.

Option 1: Retire CORSIA eligible credits

When a specific carbon credit methodology has not yet been assessed by the ICVCM, companies may alternatively retire credits included in the ICAO document CORSIA Eligible Emission Units approved for the 2021-2023 Compliance Period (Pilot Phase) or the 2024-2026 Compliance Period (First Phase), pending assessment by the ICVCM. Once the methodology has been assessed by the ICVCM, following its Assessment Framework, only CCP-labelled credits shall be retired. This framework, which assesses credit quality at the carbon crediting program and carbon credit category level, is underpinned by the ICVCM's CCPs. Any CORSIA Eligible Emission Units from these compliance periods that have been retired before assessments are made by the ICVCM for a given methodology can be used to align with the Scope 3 Action Code of Practice in a given year.

Option 2: Disclose how existing due diligence processes align with ICVCM's CCPs

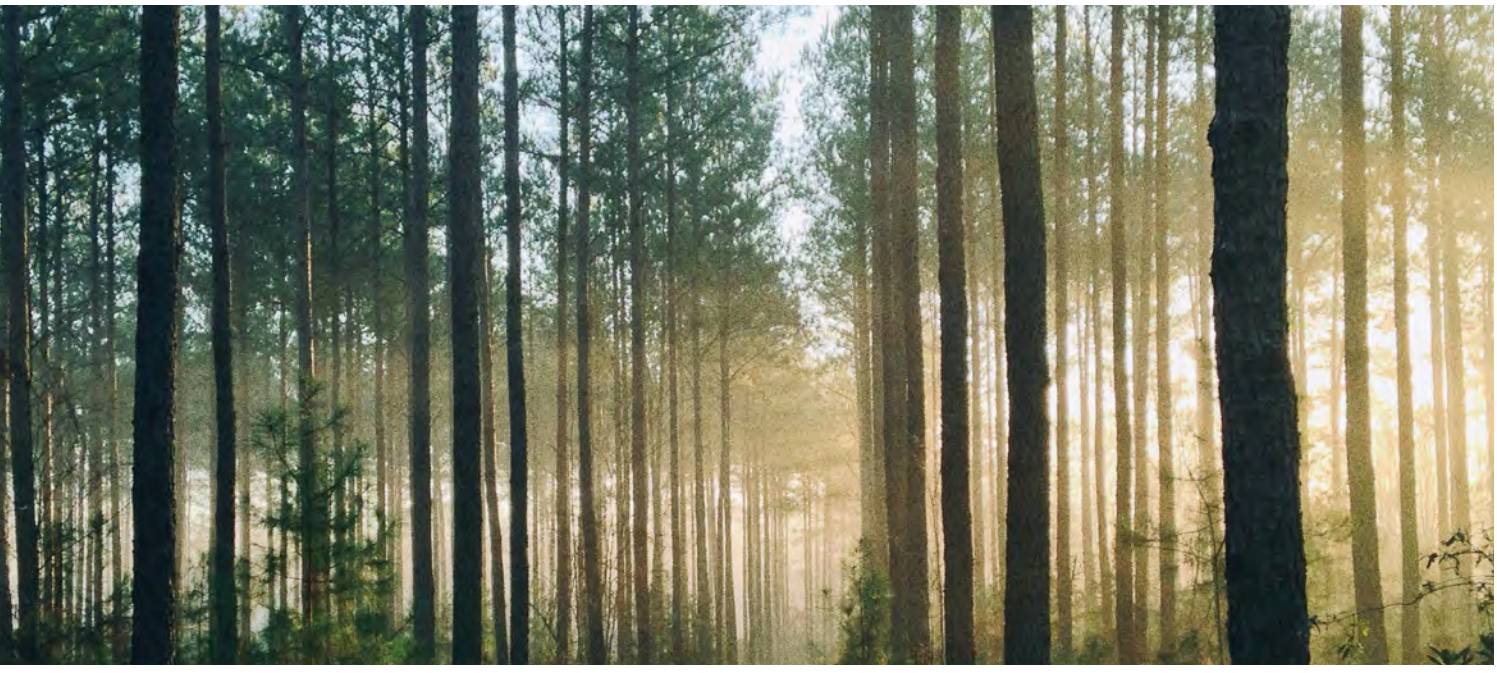
VCMI acknowledges that companies may have rigorous due diligence processes in place to ensure high-quality credits are retired. At the same time, companies may have existing carbon credit procurement agreements that were established prior to CCP-labelled or Article 6.4 credits becoming available in the market.

As such, as an additional transitional measure while the volumes of CCP-labelled or Article 6.4 credits scale up in the market, to satisfy the credit quality requirement, companies may disclose how their due diligence process for identifying credits of sufficient quality and integrity aligns with all 10 CCPs. This must be a public disclosure and will need to take the form of a statement included in a company's annual or sustainability report, or other public disclosure method used by the company.

After 1 January 2026, only CCP-labelled or Article 6.4 credits may be used for alignment with the Scope 3 Action Code of Practice. Option 2 represents a logical transition and path towards ramping up high-quality and integrity in the form of CCP-labelled or Article 6.4 credits in the coming years.

Companies are recommended to ensure that their due diligence process for the procurement of these credits align with all 10 ICVCM Core Carbon Principles.

For more details and reporting requirements, please refer to the VCMI Claims Code of Practice.



BOX 1: DOUBLE CLAIMING AND DOUBLE COUNTING

Double counting occurs when a single GHG emission reduction or removal is counted more than once towards achieving mitigation targets or goals. **Double claiming** occurs when the same GHG emission reduction or removal is claimed by two different entities towards achieving mitigation targets or goals within the same accounting system: for example once by a country, jurisdiction or other entity that reports lower GHG emissions or higher GHG removals for the purpose of demonstrating achievement of a mitigation target or goal, and once by the entity retiring the carbon credit for the purpose of reducing internal emissions to meet a target.

When credits are authorised for international transfer under the Paris Agreement, a corresponding adjustment[32] is required to avoid double counting across two or more national accounting systems, not between a national and corporate accounting system. Voluntary corporate reporting is independent of, and does not contribute to, national emissions accounting under the Paris Agreement. The voluntary use of carbon credits allows private sector finance to flow into climate mitigation efforts beyond regulatory requirements, enabling additional emissions reductions that would not otherwise be funded through government policies or compliance markets.

A corporate can purchase non-authorised credits and the country hosting the carbon market project can count those emissions reductions toward their Nationally Determined Contributions (NDC), if they have an economy wide NDC or the credits fall in a sector within the NDC. The corporate must claim the use of these credits separately from reporting greenhouse gas emissions in their inventory. These purchases are used by corporates to take responsibility for their excess emissions and in support of the corporate's voluntary climate goals, accelerating the collective effort to reach global net-zero emissions. The country in which the corporate is does not need to be informed and the credit use is not reported in their NDC accounting, therefore there is no double counting with the project's host country's NDC.

STEP 4: TRANSPARENTLY DISCLOSE KEY INFORMATION

VCMI advocates for radical transparency as a key driver for high-integrity corporate climate action. As such, companies seeking to align with this Scope 3 Action Code of Practice should transparently disclose information to demonstrate that:

- Foundational Criteria requirements have been met;
- VCMI Scope 3 Action Code of Practice specific requirements have been met; and
- Key information related to the carbon credits used to comply with guidance provided by the Scope 3 Action Code of Practice is disclosed, such as the quality and number of high-quality carbon credits retired.

Scope 3 Action Code of Practice – Annexes (Section C) is provided to help companies understand the specific information to be publicly reported when demonstrating alignment with this Scope 3 Action Code of Practice. It is recommended that companies make these reports publicly available, such as through a company's website, a standalone report (e.g. annual climate report) or within a more comprehensive report (e.g. sustainability report). Scope 3 Action Code of Practice – Annexes (Section C) aims to facilitate third-party verification of the outlined information. VCMI recommends that companies obtain third-party verification of the accuracy of the information to substantiate any associated communication.

Though companies are not using the Scope 3 Action Code of Practice to make a claim, companies can refer to the VCMI's Monitoring, Reporting and Assurance (MRA) Framework to understand the reporting and assurance requirements relating to the Foundational Criteria.

32 As presented in the VCMI Claims Code of Practice, companies are required to publicly disclose whether or not the carbon credit is associated with a corresponding adjustment in accordance with Article 6 of the Paris Agreement. If the carbon credit is reported as being associated with a corresponding adjustment, applied either currently or in the future, this shall be evidenced.

Acronyms and abbreviations

Acronyms and abbreviations

AR6	Sixth Assessment Report (AR6)
A6.4 ERs	Article 6.4 Emission Reductions
BCG	Boston Consulting Group
BSI	British Standards Institution
CO_2	Carbon Dioxide
CCP	Core Carbon Principles
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse Gas
ICVCM	Integrity Council for the Voluntary Carbon Market
IPCC	Intergovernmental Panel on Climate Change
NDC	Nationally Determined Contribution
MRA Framework	Monitoring, Reporting and Assurance Framework
SBTi	Science Based Targets initiative
tCO_2e	Tonnes of carbon dioxide equivalent
VCMI	Voluntary Carbon Markets Integrity Initiative
WBCSD	World Business Council for Sustainable Development

Glossary

Glossary

Term	Definition
1st implementation year	The first year a company starts to implement its near-term scope 3 emissions reduction target. It usually coincides with the year in which a company sets its target or the following year.
Article 6	A section of the Paris Agreement, which consists of nine paragraphs providing principles for how countries can "pursue voluntary co-operation", including through international carbon markets, to reach their climate targets, as well as additional context to support its implementation.
Assurance	An engagement in which a practitioner seeks sufficient appropriate evidence to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information provided (ISAE 3000, 2020).
Base year	In the context of inventory accounting, a base year refers to a historic datum (a specific year or, in the case of a base period, an average over multiple years) against which a company's emissions are tracked over time (SBTi, 2024).
Carbon credit	A tradeable unit issued by a carbon crediting program that represents a verified additional reduction or removal of GHGs from the atmosphere equivalent to one metric tonne of CO_2e. Carbon credits are uniquely serialized, issued, tracked, and cancelled or retired by means of an electronic registry.
Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)	A global market-based mechanism, adopted by the International Civil Aviation Organization (ICAO) in 2016, to address CO_2 emissions from international aviation. CORSIA is the first global market-based measure for an individual sector. It pursues a cooperative approach, involving governments, industry, and international organizations, that attempts to replace a patchwork of national or regional regulatory initiatives. CORSIA had aimed to stabilize, from 2021, international civil aviation CO_2 emissions at 2019 levels, including through the use of carbon credits that are determined by ICAO to meet the CORSIA Emissions Units Eligibility Criteria. (For additional information, see ICAO, 2021.)
Claim	A message used to describe or promote a product, process, business, or service with respect to its sustainability attributes or credentials (ISEAL, 2015).
Corresponding adjustment	An accounting rule under the Paris Agreement's Article 6 to ensure that, when a country authorizes and first transfers a mitigation outcome, emissions reductions or removals are not counted by the country that agreed to transfer it (WRI, 2019).
Decarbonization	The measures through which an entity reduces or avoids its GHG emissions.
Emissions coverage	Emissions coverage (or target boundary coverage) expresses the target boundary as the percentage of emissions in the target boundary out of the total. This total can be one or multiple emissions scopes and categories and may vary depending on the accounting year (SBTi, 2024).

Excess emissions	Excess emissions refer to the emissions gap between where emissions should be according to their target and where they currently are.
Guardrail	Conditions that need to be met to ensure the guidance will not be misused by companies.
Greenhouse Gas Protocol	A comprehensive global standardized framework to measure and manage GHG emissions from private and public sector operations, value chains, and mitigation actions. Building on a 20-year partnership between the World Resources Institute (WRI) and the World Business Council for Sustainable Development, the GHG Protocol enables consistent and robust GHG accounting across entities. (For additional information, see GHG Protocol.)
Integrity Council for the Voluntary Carbon Market (ICVCM)	An independent governance body that is developing and enforcing a set of Core Carbon Principles (CCPs) that establishes a new threshold standard for high-quality carbon credits in the voluntary carbon market. The ICVCM will oversee a process to determine the eligibility of carbon-crediting programs, as well as which carbon credit categories will become CCP-labelled. (For additional information, see ICVCM, 2023.)
Mitigation hierarchy	An approach whereby the elimination of sources of emissions within the value chain of the company are prioritized over compensation or neutralization measures (SBTi, 2020).
Most recent reporting year	The year related to an entity's most recent financial reporting year.
Nationally determined contributions	The national climate plan put forward by a Party to the Paris Agreement, including climate-related targets, policies and measures the government aims to implement in response to climate change and as a contribution to global climate action (UNFCCC, 2015).
Net zero	The state in which, at the global scale, anthropogenic GHG emissions in the atmosphere are balanced globally by anthropogenic removals over a specified period (as defined by the IPCC's AR6 report and adopted by VCMI).
Publicly disclose/ publicly provide	The act of companies publishing specific information or documents in the public domain (e.g. on the company's website).
Remaining emissions	A company's emissions in a given year as it progresses towards the delivery of its near- and long-term targets (SBTi, 2023).
Removals/carbon dioxide removals	Anthropogenic activities removing CO_2 from the atmosphere and durably storing it in geological, terrestrial or ocean reservoirs, or in products (IPCC, 2018).
Residual emissions	Emissions that cannot be completely eliminated or reduced to zero despite implementing all available mitigation measures contemplated in pathways that limit warming to 1.5 degrees Celsius with no or limited overshoot (SBTi, 2023).
Retirement of carbon credits	The transfer to a retirement account or the cancellation of a carbon credit. Once retired, the credit is considered 'used' and cannot be counted again toward a climate target. The owner of the retired credit can accurately claim to have reduced emissions and use those emissions to meet its climate commitments.

Science Based Target initiative (SBTi)	An initiative that mobilizes companies to set emission reduction targets based on climate science. A collaboration between CDP, the UN Global Compact, the WRI, and WWF, the SBTi defines and promotes best practice in science-based target setting, offers resources and guidance to reduce barriers to adoption, and independently assesses and approves companies' targets. Adopting an SBTi-approved target is one of the We Mean Business Coalition commitments. (For additional information, see SBTi, 2023.)
Science-based/-aligned target	'Science-based' is used when adhering to SBTi's standards and definitions. SBTi defines science-based as alignment with an IPCC model pathway of CO_2 emission reductions that limits global warming to 1.5 degrees Celsius with no or limited overshoot is the ultimate objective (SBTi, 2023). Whereas 'science-aligned' refers to the targets that are in line with the latest climate science and supports the Paris Agreement objective of limiting global warming to well-below 2°C and pursuing efforts to limit the temperature increase to 1.5°C.
Scopes 1, 2, and 3 emissions	Scope 1 emissions are emissions from operations that are owned or controlled by the reporting company. Scope 2 emissions are emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by the reporting company. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (GHGP, 2011).
Scope 3 emissions budget	The implied cumulative emissions from a company if it was to follow a linear trajectory between base year and target year emissions. The accountable period starts only on the first year of implementation of the target. It draws from the concept of total carbon budget, which is defined by IPCC (2022) as "Estimated cumulative net global anthropogenic CO_2 emissions from the pre-industrial period to the time that anthropogenic CO_2 emissions reach net zero that would result, at some probability, in limiting global warming to a given level, accounting for the impact of other anthropogenic emissions."
Scope 3 emissions budget gap	25% of the scope 3 emissions budget.
Scope 3 emissions gap	The difference between the most recently reported scope 3 emissions included in the target boundary and where they need to be on their path to decarbonization to stay consistent with their near-term science-aligned target in that same year.
Target boundary	The activities and their associated emissions that are included in a target in the target base year and subsequent years within the timeframe of the target (SBTi, 2024).
Target implementation period	Period between the first year for which a target is set until the target year.
Target year	The year stated in a company's science-aligned target when the required emission reductions and other actions shall be achieved (Adapted from SBTi, 2024).

Trajectory emissions	The emissions indicated by the company's emissions trajectory, consistent with its net-zero commitment in the year the company is seeking alignment with the Scope 3 Action Code of Practice.
Voluntary carbon market	A marketplace that encompasses transactions of carbon credits that are not purchased with the intention to surrender into an active regulated compliance carbon market. It includes carbon credits purchased with the intent to resell or for retirement by companies to compensate for unabated emissions and/or contribute to global climate action.