



Larry Bradley
Global Head of Audit
KPMG International Limited

John McCalla-Leacy
Global Head of ESG
KPMG International Limited

KPMG International Limited
15 Canada Square
London
E14 5GL
United Kingdom

World Resources Institute (WRI)
10 G Street NE, Suite 800
Washington, D.C. 20002
U.S.A.

Our ref LB/288

World Business Council for Sustainable
Development (WBCSD)
Maison de la Paix
Chemin Eugène-Rigot, 2B
Case Postale 2075 CH-1211, Geneva 1
Switzerland

12 March 2023

Dear Dr. Michael Macrae (GHG Protocol Secretariat)

Survey on Need for GHG Protocol Corporate Standards and Guidance Updates

We appreciate the opportunity to respond to the Greenhouse Gas (GHG) Protocol's [Surveys on GHG Protocol Corporate Standards and Guidance](#). Of the four surveys, we are particularly focused on the Corporate Accounting and Reporting Standard. We have consulted with, and this letter represents the views of, the KPMG network.

We are responding based on our deep global experience in the following fields: financial reporting and the audit of financial statements; climate-related strategy and decarbonization; and wider corporate and sustainability reporting, including application of the GHG Protocol in supporting clients to prepare and disclose their GHG inventories, and providing assurance on GHG emissions.

The GHG Protocol's decision to solicit input to understand user needs and improve the standards and guidance is timely. As examples, the following refer to the GHG Protocol in their respective draft or proposed climate-related disclosure standards or regulation (commentary): the International Sustainability Standards Board (ISSB), the European Financial Reporting Advisory Group (EFRAG) and the US Securities & Exchange Commission (SEC).

This level of cross-reference underscores the importance of the GHG Protocol in measuring and reporting GHG emissions, which is in effect acting as a standard setter in this area.

Reflecting this level of support and its widespread usage by companies, we believe there are three fundamental objectives in updating the standards and guidance of the GHG Protocol:

- an interdisciplinary organizational structure and robust due process that provides continued confidence in the quality of the standards and guidance;
- a principles-based approach that allows a degree of flexibility and adaptation in this fast-evolving area, which is important to the interoperability of requirements that refer to the GHG Protocol; and
- an approach to organizational boundaries that aligns or facilitates alignment with the 'reporting entity' concept used for financial reporting.

In addressing these objectives, we recommend active engagement with the ISSB, EFRAG and the SEC in addition to the scientists and engineers who will be involved from a technical measurement perspective. We believe the update of the GHG Protocol requires a cross-functional team.

Interdisciplinary organizational structure and robust due process

The GHG Protocol pioneered the accounting and reporting of emissions; however, formal standard setters and regulatory bodies are picking up their roles in establishing reporting and disclosure requirements for nonfinancial sustainability information, and they do so with authority. These bodies establish standards for reporting that are intended to address the information needs of investors or, as in the case of European Sustainability Reporting Standards, a broad range of stakeholders.

To maintain its role as perhaps the preeminent body issuing guidance on how to measure GHG emissions, we believe the GHG Protocol requires a governance body comprising a range of stakeholders, with a constitution that includes a due process that is transparent and allows for stakeholder input. For example, the GHG Protocol could draw inspiration from the structure and due process of the IFRS® Foundation in setting IFRS Accounting Standards and now IFRS Sustainability Disclosure Standards.

Principles-based approach for flexibility and adaptation

Although an update to the GHG Protocol will undoubtedly result in improvements to the accounting and reporting of GHG emissions, inevitably additional interpretive guidance will be needed. Currently, organizations such as the Partnership for Carbon Accounting Financials (PCAF) and the Science Based Targets initiative (SBTi) build on the GHG Protocol to develop supplementary guidance for companies.

Financial reporting standard setters use authoritative bodies tasked with interpreting the standards and developing guidance that supports the objectives of consistency and comparability between companies. For example, the IFRS Interpretations Committee is the interpretive body of the International Accounting Standards Board. An interpretations body would allow the standards to be more principles-based, with supplemental guidance reacting more quickly to changing technologies and available methodologies.

We acknowledge that setting up this infrastructure will take time; meanwhile, we believe ongoing and active collaboration with standard setters, industry groups (e.g. PCAF) and other relevant organizations (e.g. SBTi) would be beneficial – to provide a path for preparers to align GHG measurement with climate-related disclosure requirements as they develop.

Alignment of organizational boundaries with the ‘reporting entity’ concept

Currently, the organizational boundaries available in the GHG Protocol do not align with the ‘reporting entity’ concept used for financial reporting except by coincidence. As the reporting of GHG emissions starts to play a role in companies’ annual reporting – in addition to other uses – facilitating alignment of the two concepts would harmonize with emerging disclosure requirements and enhance connectivity between GHG emissions inventories and an entity’s financial reporting.

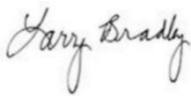
We recommend exploring how the approaches to organizational boundaries could be updated to facilitate alignment with financial reporting while considering the needs of other stakeholders.

Conclusion

Appendix 1 explains the key elements of our survey response, including in more depth the recommendations in this cover letter, in addition to projects that we believe could be undertaken as ‘quick wins’. Appendix 2 includes other technical and drafting matters for consideration.

Please contact either of us or Julie Santoro jsantoro@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely



Larry Bradley
Global Head of Audit
KPMG International Limited



John McCalla-Leacy
Global Head of ESG
KPMG International Limited

Appendix 1: Substantive comments

This appendix explains the key elements of our survey response, including the recommendations in our cover letter, in addition to identifying projects that we believe could be undertaken as ‘quick wins’: organizing the standards and guidance into a hierarchy, and initiating a ‘clarity’ project that would make clear the approaches, definitions and disclosures.

In addressing the issues that we raise in this comment letter, we recommend active engagement with the International Sustainability Standards Board (ISSB), the European Financial Reporting Advisory Group (EFRAG) and the US Securities & Exchange Commission (SEC), in addition to the scientists and engineers who will be involved from a technical measurement perspective. We believe the GHG Protocol update requires a cross-functional team representing different disciplines and with a vested interest in the accounting and reporting of GHG emissions.

Enabling preparers to pursue their strategies for managing emissions, setting targets and reporting on progress while complying with regulatory disclosure requirements aligns with the objectives of the GHG Protocol. On that basis, we recommend the updates outlined in this appendix.

Introduce an interdisciplinary organizational structure and robust due process

The GHG Protocol pioneered the accounting and reporting of emissions; however, formal standard setters and regulatory bodies are picking up their roles in establishing reporting and disclosure requirements for nonfinancial sustainability information, and they do so with authority. These bodies establish standards for reporting that are intended to address the information needs of investors or, as in the case of European Sustainability Reporting Standards, a broad range of stakeholders.

To maintain its role as perhaps the preeminent body issuing guidance on how to measure GHG emissions, we believe the GHG Protocol requires a governance body comprising a range of stakeholders, with a constitution that includes a due process that is transparent and allows for stakeholder input. For example, the GHG Protocol could draw inspiration from the structure and due process of the IFRS® Foundation in setting IFRS Accounting Standards and now IFRS Sustainability Disclosure Standards.

As financial reporting standards evolved over time to drive the quality accounting and financial reporting that we have today, so too will GHG emissions reporting experience an evolution requiring it to adapt to the needs of its expanding user base and harmonize over time with climate-related disclosure requirements. A broad distribution of the GHG Standards, and updates thereto, for public comment with a transparent process should be thoroughly considered.

Going forward, we urge establishing a disciplined process that incorporates amendments directly into the standards without creating separate documents.

Review the requirements and guidance for organizational boundaries

Currently, the organizational boundaries available in the GHG Protocol do not align with the ‘reporting entity’ concept used for financial reporting except by coincidence. As the reporting of GHG emissions starts to play a role in companies’ annual reporting – in addition to other uses – facilitating alignment of the two concepts would harmonize with emerging disclosure requirements, thereby enhancing connectivity between GHG emissions inventories and an entity’s financial reporting.

As a fundamental objective in updating the standards and guidance of the GHG Protocol, we recommend exploring how the approaches to organizational boundaries could be updated to facilitate alignment with financial reporting while considering the needs of other stakeholders.

The GHG Protocol was developed to promote broad adoption of the GHG accounting and reporting standards for businesses.¹ Initially developed to align with the financial accounting and reporting standards (mainly IFRS Accounting Standards) that existed at the time, the GHG Protocol has not yet been updated to address the misalignments created as financial reporting standards have evolved and will continue to evolve.

In our response to the ISSB's exposure drafts of proposed standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, we agreed that the reporting entity for sustainability-related financial information should be the same as for the financial statements. (This connectivity was also a theme of the SEC's climate proposal, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*.) However, we believe further guidance on the measurement and disclosure of information from associates, joint ventures and other non-consolidated investments (e.g. investment company structures) is needed to operationalize that principle. This underscores the issues that evolving accounting and reporting standards may create without consideration for how changes may impact sustainability reporting, and GHG emissions inventories, as a result.

Given the ISSB referenced the use of the GHG Protocol methodology in proposed IFRS S2 and has decided in redeliberations to anchor to the 2004 edition of the Corporate Standard, we recommend the GHG Protocol take up a separate project with the ISSB to provide further guidance on the practical implications of aligning the reporting entity for sustainability reporting with the financial statements. The project would drive consistency and comparability in the reporting of GHG emissions, which is important to making the information decision-useful for those within the reporting organization and other stakeholders.

Other benefits of consistency

Consistent organizational boundaries and methodology can also streamline the efforts of companies that are responding to requests from customers or suppliers. As more companies both plan to prepare inventories and require them from portfolio companies or business partners in their value chains, this update to the GHG Protocol should facilitate removing barriers to reporting and improving the completeness and accuracy of the data. If companies are seeking to obtain better data for developing their scope 3 emissions inventories, identifying and addressing obstacles to reporting would help achieve the GHG Protocol's stated objectives.

In many cases, the SBTi has collaborated to develop sector interpretive guidance to provide a rigorous, credible accounting foundation for business to measure, plan and track progress toward science-based and net-zero targets in line with the global 1.5°C

¹ [A Corporate Accounting and Reporting Standard](https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf), Introduction. Greenhouse Gas Protocol, March 2004, <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>. Retrieved February 4, 2023.

goal, providing another benefit of facilitating the use of interpretive guidance.² For example, the SBTi developed private equity sector guidance for target-setting in collaboration with industry. This guidance illustrates the friction between accounting and reporting standards' definition of control, complex legal structures, and the need for adaptability of organizational and operational boundaries to facilitate target-setting aligned with the latest climate science and global climate goals.

Adopt a principles-based approach for flexibility and adaptation

Interpretive guidance process

We recommend building an interpretations model that facilitates more rapid evolution of the standards as reporting becomes integrated into the annual reporting cycle and uses the lessons learned from the collective experience in developing financial reporting standards.

Although an update to the GHG Protocol will undoubtedly result in improvements to the accounting and reporting of GHG emissions, inevitably additional interpretive guidance will be needed. Currently, organizations such as the Partnership for Carbon Accounting Financials (PCAF) and the Science Based Targets initiative (SBTi) build on the GHG Protocol to develop supplementary guidance for companies.

Financial reporting standard setters use authoritative bodies tasked with interpreting the standards and developing guidance that supports the objectives of consistency and comparability between companies. For example, the IFRS Interpretations Committee is the interpretive body of the International Accounting Standards Board (IASB). An interpretations body would allow the standards to be more principles-based with supplemental guidance reacting more quickly to changing technologies and available methodologies.

A further benefit of a principles-based approach is that it would enable the GHG Protocol to provide a common technical underpinning for standards that are designed to meet different reporting objectives. This would be a significant contribution to interoperability between standards, which is a focus of the ISSB.

Interim solutions

We acknowledge that setting up this infrastructure will take time; meanwhile, we believe ongoing and active collaboration with standard setters, industry groups (e.g. PCAF) and other relevant organizations (e.g. SBTi) would be beneficial – to provide a path for preparers to align with climate-related disclosure requirements as they develop.

Processing the interpretive guidance needed through the GHG Protocol's existing 'Built on GHG Protocol' fee-for-service approach will take time. Nonetheless, the current activities in the private sector to develop interpretive guidance could be embraced and leveraged while still reporting in accordance with the GHG Protocol. This pragmatic approach may help preparers achieve better alignment with climate-related disclosure requirements.

² [Net-Zero-Standard.pdf \(sciencebasedtargets.org\)](https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf), SBTi Corporate Net-Zero Standard, Version 1.0, October 2021. <https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf>. Retrieved March 6, 2023.

Benefits of considering private sector guidance in conjunction with updates

Where more developed thinking has resulted in improved examples and clearer guidance for preparers, it could be incorporated into the GHG Protocol. For example, PCAF offers improved disclosures that are more granular but may give the reader more transparent, relevant information about the development of estimates. EFRAG is expected to issue sector-specific guidance in 2024 and could also supplement the guidance needed by industry.

Sector guidance has been issued under the banner of ‘Built on GHG Protocol’, such as PCAF’s *The Global GHG Accounting and Reporting Standard Part A: Financed Emissions*, seeking to drive consistent emissions inventory development and comparability within the financial services industry. Another benefit is that sector-developed interpretive guidance, such as that developed by PCAF, may also be best positioned to establish relevant metrics or more granular scope 3 reporting for their business models. These metrics may also serve to inform what relevant target-setting looks like for traditionally low-emitting industries. In these cases, scope 3 reporting may be the metric they believe is more relevant against which to show progress. Acknowledging this guidance and illustrating how to fit it within the hierarchy of standards and guidance application could have benefits that enhance the accounting and reporting objectives of the GHG Protocol.

Adaptability in an improving landscape of GHG measurement

Improvements in tools, data accuracy and availability, as well as the precision of assumptions, will continue. A principles-based approach to guidance on how to calibrate the assumptions as data improves, what quality criteria should be used to evaluate data and assumptions, and how to adjust for imperfect matches between the activity and the emission factor could provide needed flexibility and a path for adaptation without necessitating a significant update to the GHG Protocol each time. The framework should gradually raise the bar as the inputs to measurement improve.

Importantly, collaboration with the ISSB would have the GHG Protocol well placed to guide what minimum disclosures the standard setter should incorporate for a reader to understand the uncertainty, inputs, methods and assumptions used in the estimate as measurements improve.

Clarify and strengthen the quality criteria and approach to its evaluation

We recommend strengthening the language of the standard related to the qualitative review of data and uncertainty. A codified standard could provide examples illustrating clear steps to evaluate the quality of the data, tool or resource from the lens of relevance and reliability. As explained more fully in Appendix 2, this could include establishing a criteria hierarchy to prioritize which is more important to the objective and a disclosure to indicate the quality to the reader.

Emission factors

The GHG Protocol could consider publishing the hierarchy, or list, of emission factors to use or prioritize for any scope of emissions. It could consider establishing a quality framework for emission factors, if not facilitating the development of a single source of accepted emission factors. For example, illustrations that demonstrate appropriate consideration of the parameters used for calculating the emission factors and similarities with the geographical area support preparers’ understanding of how to assess quality of the inputs to measurement. Consider the benefits of creating, or

facilitating the creation of, a single source of the available residual mix factors for scope 2.

Emission factors may also be proprietary or otherwise not publicly available. We recommend that updates to the standards address this emerging market practice and how preparers best manage these situations in preparing their emissions inventories with quality disclosures for the reader.

Quality criteria under scope 2

The scope 2 quality criteria describe the consideration of several elements that do not practically occur within a period that allows the supplier to carry out any necessary third-party certification and provide information to a preparer for use in their own reporting for electricity generated/delivered within the annual reporting period. As a result, policy choices are made by individual preparers on how to navigate this process while attempting to comply with their interpretation of the quality criteria. Stronger disclosure language could support transparency and consistency in this process, not least for the sake of a preparer understanding how it compares with peers publicly disclosing emissions inventories or where jurisdictional law may drive the approach taken.

Transparent disclosure requirements are needed to accommodate the introduction of different market-based contractual instruments and illustrate the building blocks of how electricity was obtained for consumption or resale. The current Scope 2 Guidance treats all energy attribute certificates (EACs) and contractual instruments as equivalent, when they may not have the same result on market influence or emissions reductions. Instead, disclosure requirements could provide transparency about market choices and may influence behavior more in line with the GHG Protocol’s objectives. For example, a disclosure presenting the percentage of electricity purchased via power purchase agreements, virtual power purchase agreements and renewable energy certificates would communicate to the reader the efforts and approaches an entity is taking to physically source its energy from lower emissions or no emissions sources.

Data quality

We recommend expanding the examples of qualitative approaches to evaluating data quality and using different fact patterns to illustrate changes over time.³ Consider codification and rationalization of separately issued existing guidance related to emissions inventory uncertainty. For example, the document *Quantitative Inventory Uncertainty* describes itself as ‘a recommendation in the Scope 3 Standard’; however, that recommendation does not guide the reader to the source of further examples of how to apply the data quality indicators. Other examples of disjointed guidance in the Corporate Standard refer the preparer to *Guidance for Collecting Data from Suppliers*, linked only with the general website of the GHG Protocol.

Quick wins

Establish a hierarchy

The GHG Protocol was developed over many years, with standards, guidance, amendments and sector guidance that sits on the GHG Protocol’s website. Over time,

³ [Corporate-Value-Chain-Accounting-Reporting-Standard](https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf), Box [7.2], page 77 Greenhouse Gas Protocol, September 2011 https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf. Retrieved March 6, 2023.

the result is disjointed information not clearly delineating between what is the standard and what is guidance, and repeated information, because of the way it was produced. This update is an opportunity to codify the standards and subsequent amendments into a more comprehensive document, while expanding on examples and clarifying the language to improve understandability as to what is required when seeking to comply.

The following are examples.

- Collate the standards, amendments and examples/case studies, thereby removing duplicative information.
- Consider adding unique numerical references to the paragraphs of all the standards and application guidance that links to the associated standard it is illustrating.
- Envelop the Scope 2 Guidance within a single Corporate Standard, rather than continuing with the 'bolt-on' issuance of amendments.

The Scope 2 Guidance states that, to comply with the Corporate Standard, the preparer shall adhere to the Scope 2 Guidance; however, it resides under the heading 'Guidance' on the GHG Protocol's website and is labeled as such. Additionally, preparers have the option to report discrete scope 3 categories under the Corporate Standard; however, it is not clear whether the GHG Protocol intends for preparers to follow the scope 3 calculation methods and disclosures for the categories it chooses to report – now that such guidance exists. This requirement, if included, would be well placed within a codified Corporate Standard.

Establishing a hierarchy to explain clearly how to use the Standard, the appendices and sector guidance could be designed to facilitate clear reporting and complete disclosure.

Clarify definitions, approaches and disclosures

Approach and definitions

The GHG Protocol's update is an opportunity to create case studies and detailed examples with up-to-date fact patterns, which will facilitate clarifying the requirements and execution of acceptable approaches.

One example could illustrate an appropriate policy and approach to incorporating changes in data accuracy or assumptions (e.g. emission factors or global warming potential changes) to base year recalculations and how to practically adhere to the expectation that new, better information is integrated into the measurement of emissions. Technology and data accuracy will continue to improve at a rapid pace. Subsequent changes to more precise information may distort readers' perception of what is progress facilitated by actual changes implemented by the preparer and what is simply a follow-on impact of more precise measurement capabilities. Consider whether the impracticalities of continuous recalculations to the prior year information due to changes in data accuracy, or externally provided assumptions, should be made for the sake of consistency when it has no impact on the physical reductions of emissions for those periods.

We recommend establishing definitions where there is no need to have flexibility. For example, short-, medium- and long-haul flights for business travel or for accounting for emissions from remote work structures likely have limited, if any, relevant differences between companies. Even at this granular level, avoiding unnecessary divergence in definitions is important to reducing preparation expense and duplication of similar – but different – reporting. The GHG Protocol's engagement with the development of

interpretive guidance for sectors could facilitate a complementary, not contradictory, set of guidance and definitions.

We recommend aligning the principles of GHG accounting and reporting (relevance, completeness, consistency, transparency, accuracy) with the characteristics of ‘useful financial information’ widely used for financial accounting and reporting. The respective conceptual frameworks of the IASB and the Financial Accounting Standards Board have ‘relevance’ and ‘faithful representation’ as the fundamental qualitative characteristics, and ‘comparability’, ‘verifiability’, ‘timeliness’ and ‘understandability’ as enhancing qualitative characteristics. These characteristics are considered as a starting point when considering what information should be disclosed by both a standard setter and preparer, especially where guidance is unclear. Alignment of the definitions is a foundational element for preparers reporting GHG emissions information based on the GHG Protocol under climate-related disclosure rules in a regulatory environment.

Disclosures

The Standard has labels that include ‘shall’, ‘should’ and ‘may’ to indicate where preparers need to adhere to what is stated in the Standard and where it has an optional or recommended disclosure. These terms are understandable; however, the actual information necessary to meet the requirement is not always clear. Consider these disclosure descriptions in the GHG Protocol:

- year chosen as base year, and an emissions profile over time that is consistent with and clarifies the chosen policy for making base year emissions recalculations; and
- appropriate context for any significant emissions changes that trigger base year emissions recalculation.

Neither of these descriptions is prescriptive regarding what information about the base year is required because the phrase ‘emissions profile over time’ is neither defined nor illustrated. Similarly, should there be a current year change in methodology or reporting boundary, the disclosure requirement to provide ‘appropriate context’ does not indicate what, if any, information about the resulting changes to the base year emissions data is required. Without more prescriptive language and examples of how this requirement is acceptably addressed, practice will continue to vary.

In addition, as part of the process of rationalizing minimum disclosure requirements during this update, we recommend more clearly indicating what is the Standard versus guidance and, importantly, reconsider what elements of disclosure are necessary to support the reader’s understanding of the resulting GHG measurement presented.

One possible step the GHG Protocol could take to understand where additional clarification for its disclosure requirements may be warranted is to undertake a review of publicly available GHG emissions statements, like the review undertaken by the Task Force on Climate-related Financial Disclosures. This review may also inform the GHG Protocol’s update to any verification guidance provided. While the Standard is being updated more fully, the GHG Protocol could release its more significant findings and specific guidance to facilitate better reporting in the near term.

Conclusion

In our view, the approach outlined above, including providing application examples for quality criteria and approaches to evaluating the tools, data and assumptions appropriately, will have a ripple effect on improving measurement and disclosure in the market. The large, more sophisticated preparers will facilitate behavior changes in their



own value chains. Even outside their value chains, these preparers are often setting the example of what good looks like. We believe that if the GHG Protocol addresses frequent situations encountered and the qualitative framework to use in evaluating inputs and models of measurement, it will influence overall market behavior.

Appendix 2: Corporate Standard Survey

This appendix includes other practical application and disclosure matters for consideration and reconciles our responses to the specific questions asked by the GHG Protocol where we believe we have the relevant experience and perspective.

The additional comments below are for consideration by the GHG Protocol Secretariat. Although they are not critical for operation of the GHG Protocol, in many cases we believe that addressing them would improve the clarity of the requirements and facilitate alignment with evolving climate-related disclosure requirements.

1. Establish hierarchy

Corresponding questions: 13, 14

Appendix 1 of this letter describes several considerations for making updates that we believe will improve the GHG Protocol as a tool for preparing GHG emissions inventories for both voluntary and regulatory reporting. Organizing the GHG Protocol into a hierarchy of codified standards and amendments, distinguishing between authoritative and nonauthoritative standards versus guidance would facilitate more consistent adherence to the standards.

Throughout the GHG Protocol Standards, we believe providing more illustrative application examples would improve measurement and disclosure practices.

2. Organizational boundaries

Corresponding questions: 18, 19

We recommend the GHG Protocol consider revising the requirements related to organizational boundaries to better align with the current financial reporting standards and be accommodating to multiple sets of generally accepted accounting principles (GAAPs).

2.1 Connectivity with the ‘reporting entity’ concept of the financial statements

As described in Appendix 1, there are areas of the Corporate Standard that have become more divergent from the financial reporting standards they may have originally referenced.

While the organizational boundaries currently described may suit many company structures, it may not be easily discernible for a reader how the breadth of a company’s operations are reflected within the emissions statement or aligned with the reporting entity definition in preparing financial statements. Publicly available financial statements describe the legal structure and have transparent accounting rules and disclosures related to consolidation; information about what is and is not consolidated is also provided. We recommend considering the benefit to the reader of a disclosure describing the reporting entity for GHG emissions.

For example, the accounting rules for variable interest entities were relatively new when the Corporate Standard was first released. Similarly, the financial reporting standards affecting the presentation of investment companies’ financial statements have changed. The outcome of applying previous GAAP guidance often resulted in consolidation of controlled investees or applying the equity method of accounting, which did not represent the fair value of investees of the investment companies. If applying an accounting definition of control to determine whether there is operational control under the GHG Protocol, the result for investment companies could lead to inclusion of

investees' scopes 1 and 2 emissions within its operating company GHG inventory. This presentation may not be comparable to its competitors, it may distort the changes in emissions over time as investment ownership increases or decreases. It also may inhibit GHG emissions reporting because the company does not actually have the ability to mandate the investee to report its emissions; financial control in the GHG Protocol's context does not equate to an ability to control the emissions-producing activities of the investee.

2.2 Sector guidance and organizational boundaries

PCAF and other sector guides that describe themselves as aligned with the GHG Protocol have sought to address issues of consistent application faced by their industries. These sector guides have also approached presentation matters with an industry lens – i.e. which categories of information may be most relevant to users of the information in the context of the industries' activities.

We believe the GHG Protocol should consider adapting features from these sector guides that have improved upon the existing standards. At a minimum, absent a formal authoritative interpretive body to consider application questions that arise, the GHG Protocol could facilitate the use of the interpretive guides as part of the body of the GHG Protocol's hierarchy. This could be the more practical, time-efficient approach to address the need in the marketplace.

2.3 Clarify the definition of operational control

The Corporate Standard describes operational control as having the 'full authority' to introduce and implement its operating policies. The example distinguishes between authority to make 'all decisions' concerning the operation, such as significant capital improvements, and authority to 'introduce and implement its operating policies'.⁴ Improved examples illustrating how to evaluate operating policies, and which types of policies are relevant for determining if operational control exists, would improve its consistent and comparable application between preparers.

For example:

- Does operational control equate to the accounting conclusion for variable interest entities when decision-making ability results in consolidation despite ownership interest in the entity being limited? What if the operational policies over which the investor has control do not relate to emissions-generating activities?
- Do operational policies mean specifically those that determine the use of on-site fuel sources or refrigeration units, or operating policies such as the temperature inside the office and the ability to change the source of indirect emissions (scope 2)?

This is an area where stronger, clearer language and detailed examples of applying the definition of operational policies would clarify what is expected to be considered and thereby improve application of the Standard.

⁴ [A Corporate Accounting and Reporting Standard](https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf), page 18, Chapter 3. Greenhouse Gas Protocol, March 2004, <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>. Retrieved February 7, 2023.

2.4 Refreshed examples

Examples of applying the organizational and operational boundaries should consider other aspects of business activities that have become more widely used in the last twenty years, such as the offshoring of activities – i.e. situations in which the preparer may have responsibility for the activities of an office without legal ownership or a lease arrangement in place.

3. Operational boundaries

Corresponding questions: 20, 21, 22, 23

We recommend the GHG Protocol consider revising the guidance related to operational boundaries to better align with current financial reporting standards.

The changes to leasing standards under IFRS Accounting Standards and US GAAP are a prime example of the need for an update that encompasses all emission scopes. The leased asset guidance is currently anchored to an IFRS Accounting Standard that is no longer in use and was different from US GAAP even at the time of its writing.

Today, both IFRS 16 *Leases* and ASC 842 *Leases* require this first step:⁵

To determine whether a contract conveys the right to control the use of an identified asset for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:

- a. The right to obtain substantially all of the economic benefits from use of the identified asset.*
- b. The right to direct the use of the identified asset.*

The organizational boundaries of operational and financial control may be confused with the financial reporting standards' definition of when a lease exists. While the GHG Protocol guides a preparer to work with the company's accountant⁶, updated guidance and clear examples would ease the process for making these judgments.

Another notable change to the lease financial reporting standards is that a lease's terms may result in the recording of a right-of-use asset on the balance sheet at the beginning of the lease, regardless of whether it is considered a finance lease or operating lease. However, this right-of-use asset does not represent 'ownership', though the criteria to meet the definition of a lease may appear to be like those previously applied under the 'risk and rewards' model of lease accounting.

Importantly, there is still a difference in the presentation of leases under IFRS Accounting Standards and US GAAP. From the lessee's perspective, all leases are classified as finance leases under IFRS Accounting Standards, while lessors may still have leases classified as either operating or finance. However, under US GAAP both the lessee and lessor may classify leases as operating or financing.

⁵ ASC 842-10-15-4, as presented. IFRS 16, para. 9, states, "at inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration..."

⁶ [A Corporate Accounting and Reporting Standard](https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf), page 29, Chapter 4. Greenhouse Gas Protocol, March 2004, <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>. Retrieved February 4, 2023.

This is another area that would benefit from close collaboration with the accounting standard setters. We suggest engaging with the IASB to establish updated guidance that addresses several application scenarios. Explaining the rationale underscoring each outcome of the leased assets treatment will help preparers apply the Standard consistently, contributing to a better understanding of the emissions related to lease arrangements described in the financial statements.

We recommend the GHG Protocol also carefully consider the understandability of language that may contribute to confusion and inconsistent application. For example, Table A.1 in the Scope 3 Guidance states the following:

*Lessee does have operational control, therefore emissions associated with fuel combustion **at sources in the leased space** are scope 1 and use of purchased electricity are scope 2. [emphasis added]*

A leased space may receive heat from a boiler in the basement. If the basement is not part of the leased space, it may not be considered as scope 1. However, it is also not purchased electricity and any calculated emissions would be an allocation from the lessor perhaps based on the size of the leased space.

Guidance for real estate owners is another example where there is diversity in practice – owned buildings could be categorized within scopes 1 and 2, or within scope 3 Category 8 or 15. Providing examples as to when each of these scenarios is appropriate would help drive consistent reporting. The extent of flexibility needed, in some areas, should be reconsidered as to whether it is causing unnecessary incomparability in presentation.

4. Tracking emissions over time

Corresponding questions: 24, 25

The current descriptions of required disclosures are unclear and expectations for recalculations do not use language that communicates to the preparer the required elements of disclosure. Practical implications for selecting and applying a recalculation policy contemplated in the Corporate Standard are not considered.

4.1 Base year presentation

The GHG Protocol update should specify what information is required to be disclosed related to the base year beyond the year chosen (e.g. base year data by scope of emissions) and which information about the base year is optional. If the intention was that the preparer include comparable information between the current year and base year (or other periods in between), the disclosure requirements should indicate the extent to which disclosures should be provided.

As explained in Appendix 1, ‘appropriate context for significant emissions changes’, implies that a base year emissions table is presented but the Standard does not explicitly indicate required elements of the disclosure of base year information.

In periods of no change to base year emissions, or other periods, the guidance should consider whether disclosure of the base year information is still necessary. Further, in the absence of a target anchored to a base year, such disclosure may no longer be relevant to the reader. If companies have set targets that are forward-looking only (e.g. Net Zero by X date), guidance regarding practical considerations for presenting comparative information and recalculation policies would be beneficial.

4.2 Recalculations

4.2.1 Policy description

For a reader to understand the policy related to recalculations, certain elements would facilitate a reader’s understanding about the policy. The current Standard states that the disclosure should ‘clarify the chosen policy for making base year emission recalculations’ indicating a policy description and not the actual recalculation.

An updated reporting requirement might indicate the specific elements of disclosure to include:

- an acknowledgement of each type of situation in which the base year may be subject to recalculation under the GHG Protocol Standards;
- the frequency with which the company reviews for changes (if different for types of changes, clarify this), including consideration of cumulative changes (whether the same significance threshold applies);
- if the base year is recalculated, whether the policy should also include a recalculation such that all comparative periods included in the Statement are consistently prepared; and
- the significance threshold for the change and whether this is applied to scopes 1 and 2 individually or in total, and how scope 3 is considered by category.

We recommend reconsidering the significance threshold examples. There is wide-ranging diversity in practice (2% versus 10%). The current guidance is vague and could be better tied to a preparer’s materiality overall. In the context of climate-related disclosure requirements that will be based on connectivity to the financial statements, examples of how to consider these significance thresholds for nonfinancial GHG emissions information would be helpful. We recommend collaboration with the ISSB on such topics as significance and materiality in the context of GHG emissions.

4.2.2 Whether recalculation is necessary

The following optional disclosure suggests specific information about the recalculation be included, but only if appropriate:

GHG emissions data for all years between the base year and the reporting year (including details of and reasons for recalculations, if appropriate). [p64]

The intention of the language ‘if appropriate’ is not clear because the entire disclosure is optional. Preparers will apply their materiality and the Standard does not need to add a caveat to requirements on that basis. Recalculations to comparative periods between the base year and current year are described as optional; however, the Standard does not distinguish whether it is still optional when the periods between the base year and current year are also presented.

Additionally, further guidance is needed to assess what is an appropriate data accuracy improvement to warrant recalculating the base year, including comparative periods, as well as additional guidance on differentiating between changes in estimates or measurement techniques, as well as on the use of hindsight. If there are trade-offs between the improvement in actual data accuracy and the availability of an appropriate emission factor, provide examples of how a preparer should consider these. As explained in 4.3 below, similar considerations related to the timing of receipt of information continue to have impacts even after the reporting period has ended.

Examples should also illustrate practical cases where an improvement in the data or emission factors for previously reported information is available but it is acceptable not to adjust the base year. The rationale may be varied – e.g. recalculation would cause a distortion in the preparer’s emissions inventory, prior periods are not relevant based on the preparer’s planned use of the inventory (e.g. net zero targets), or the time and cost to recalculate outweighs potential benefit to the reader.

4.3 Subsequently available information and cut-off

A fundamental principle in financial reporting standards is how to address subsequent events that occur after the reporting period and before the financial statements are issued (or available for issue). In some cases there is disclosure only, and in other cases the information may require an adjustment to the amounts recognized in the financial statements.

The typical reporting timeline for GHG emissions is four to six months after the calendar year-end. Measurement of emissions improves as reliable data becomes available, as tools improve or as assumptions more precisely align with the activity data. The GHG Protocol has a principle of continuing to present information on a consistent basis that is accurate and complete. However, we think a balance is required between providing the most complete and accurate presentation of the GHG emissions inventory and the practicalities of timely receipt of information and the need to have a controlled process governing reporting.

The GHG Protocol does not address the practical implications of how these types of developments should be addressed between the reporting period end date and the report issuance date. Consider the following situations.

- Supplier-specific emission factors that become available too close to the reporting date to be integrated into the current year measurement.
- US eGrid emission factors are updated annually, available in April each year, and reference the prior two years. Questions arise as to whether this new assumption should be applied to the immediately completed reporting year, the two periods before it (if presented), or left to be used in the subsequent year’s measurement.

Examples should address such timing matters and the practical implications of integrating the most recent, accurate information into the measurement.

Timing is also an issue related to adhering to the Scope 2 Quality Criteria, described in 7.1 below.

5. Verification

Corresponding questions: 26, 27

While attestation and ‘verification’ reinforce the principles of accuracy and completeness of disclosure, the responsibility for complete and accurate disclosure rests with management and those charged with governance. Best practices and internal controls used to prepare financial statements will inform the structure of data collection and review that should be established as more companies report emissions inventories. Similarly, attestation may be required by regulatory bodies or voluntarily sought by companies.

Reputable attestation standards associated with quality financial and nonfinancial reporting, such as those of the International Auditing and Assurance Standards Board and the American Institute of Certified Public Accountants, are equipped to also

manage the needs of attestation providers in navigating attestation of reporting under the GHG Protocol. Examples to illustrate where verification fits into the process should not confuse the role of the attestation provider with management’s responsibilities to have a process to review information it produces publicly and uses for decision-making purposes. Attestations that identify errors in inputs or calculations should be treated as errors; an independent verifier or attestation provider is not part of management’s internal control function.

We urge the GHG Protocol not to cause confusion regarding what information should be in an assurance report provided by a licensed professional reporting under established attestation standards. These standard setters have specific requirements for reports issued using their standards. Indicating to a preparer that additional and conflicting elements are needed in the assurance report may be detrimental.

6. Other topics

Corresponding questions: 28, 29

6.1 Information prepared for submission to CDP

In practice, often companies seek assurance on the current year’s GHG emissions information for the purpose of disclosing the information to the CDP. The Statement of GHG emissions may only include the current year information and not present a comparative period on the Statement itself. CDP requires that the respondent include information about the base year, but it is not a requirement that the base year presentation was considered in the practitioner’s report on the current year.

Further to the comments described related to questions 24 and 25 (see 4 above), unless base year data is required to be reported quantitatively each period, the practitioner is not required to assess whether current year changes in the preparation of the information have been appropriately applied to the base year. In summary, adherence to the GHG Protocol’s expectation that “it is the responsibility of the verifier to confirm the company’s adherence to its threshold policy” may not be within the scope of the verifier’s engagement for assurance.⁷

6.2 More detailed examples of application and ability to submit questions

In the absence of authoritative interpretive bodies, the objectives of the GHG Protocol may be helped by providing a mechanism for preparers to submit questions and receive a response. For example, the US Green Building Council provides guidance and examples on the LEED point system – online tool for licensed accounts.⁸ Examples provide guidance on how to approach different situations and provide multiple scenarios to illustrate application.

6.3 Data, tools and quality criteria

Data accuracy and tools will continue to improve at a pace faster than the GHG Protocol alone will be able to keep up with. Like financial reporting standards and valuation methods, the model and sources of inputs may not be specifically identified,

⁷ [A Corporate Accounting and Reporting Standard](https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf), page 35, Chapter 5. Greenhouse Gas Protocol, March 2004, <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>. Retrieved March 9, 2023.

⁸ [LEED tools | U.S. Green Building Council \(usgbc.org\)](https://www.usgbc.org/leed-tools). U.S. Green Building Council, <https://www.usgbc.org/leed-tools>. Retrieved March 7, 2023.

but consideration of the relevance of each will become embedded within the process to develop the estimate.

Further, not least for purposes of transparency, we believe a disclosure of the hierarchy of data quality like the fair value measurement hierarchy in IFRS 13 *Fair Value Measurement* and ASC 820 *Fair Value Measurement* would be beneficial. It would help promote a common understanding of estimation uncertainty and the type of data used in calculating emissions.

The following is a potential example that leverages the scope 3 calculation guidance issued by the GHG Protocol (but broadened to all scopes for this purpose).⁹ The level would be disclosed for each category or sub-category of emissions.

- Level 1: All actual data (actual consumption + actual emission factor)
- Level 2: Hybrid data (estimated consumption + actual emission factor or estimated emission factor + actual consumption)
- Level 3: All estimated data (estimated consumption + estimated emission factor)

Like application of the fair value hierarchy, categorization could be based on the significance of estimates to the overall measurement. A disclosure of this type could provide transparency over improvements to the measurement over time.

Notwithstanding the need to describe for the reader that even a Level 1 measurement is still an estimate and not to be understood as a finite number, an alternative approach for scope 3 emissions could be to provide a disclosure presenting the ratio of primary data to secondary data and verified versus non-verified data.

Keeping up with advancements in data and technology may be a challenge. In the absence of a mechanism to keep pace with these developments, a more practical answer may be to be more prescriptive about how to adapt calculations as data accuracy and tools improve, or where data improves but another input does not. For example, if the data available for a scope 3 calculation method is old, provide examples for ways to adapt it to be more relevant (e.g. adjusting US pricing data from 2016 by adjusting for inflation). Likewise, indicate the required disclosures when this approach is taken to adjust for the quality of the data's 'temporal representativeness'.¹⁰

The data quality criteria should also consider the age of the data – demoting databases and calculators in the hierarchy of quality consideration, the older and less relevant they get to a current year measurement.

6.4 Transparency of emission factors

The Corporate Standard describes a requirement to list scopes of emissions by gas. However, section 6.7 of the Scope 2 Guidance directly acknowledges that emission

⁹ [Technical Guidance for Calculating Scope 3 Emissions](https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf), Figure [1.1] Different data types used for different calculation methods. Greenhouse Gas Protocol, April 2013, https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf. Retrieved February 7, 2023.

¹⁰ [Corporate-Value-Chain-Accounting-Reporting-Standard](https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf), Table [7.6] Data quality indicators. Greenhouse Gas Protocol, September 2011 https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf. Retrieved March 7, 2023.

factors may not provide a breakdown by gas.¹¹ Preparers are not offered any guidance on how to approach the disclosure requirement when emission factors do not provide the detailed information – should they make no disclosure, partial disclosure with explanation of the information omitted?

Emission factors may also be proprietary or otherwise not publicly available, thereby limiting a preparer's ability to disclose the related emission factor publicly. Updates to the standards could address this market practice and how preparers best manage these situations in accompanying their emissions inventory with quality disclosures.

6.5 Establishing definitions and preferred methods

Additional corresponding question: Scope 3 Survey - 24

The GHG Protocol intended to facilitate adoption of the accounting and reporting of GHG emissions, and therefore built flexibility into how a preparer may define the parameters of its data and calculations. Recognizing that fact, we believe more prescriptive requirements on preferred calculation methods and definitions may be warranted for the sake of improved comparability and consistency. For example, short-, medium- and long-haul flights for business travel, likely have limited (if any) relevant differences between companies that warrant flexibility in how these distances are defined. Accounting for the emissions of a remote workforce and intercompany transactions are areas that apply similarly to many companies, but guidance is needed to facilitate more consistent measurement.

Another benefit of clear examples and recalculation requirements for scope 3 categories could be to prevent opportunities to misrepresent emissions reductions progress by making better data choices and selecting more precise emission factors to stimulate progress in an emissions inventory. For example, car travel and the related data available is quickly advancing; ride-sharing vendors are now able to provide the exact make and model of the vehicle and distance for a trip. Current guidance in this area does not make it clear whether vehicle type needs to match the vehicle emission factor selected, if available.

Should the GHG Protocol seek to address terms such as 'net zero' or 'carbon neutral' in the updated standards, anchoring to an existing definition from a reputable organization would avoid adding yet another interpretive definition in the market. This situation underscores the need to have a cross-functional team with active engagement with other standard setters to avoid diverging definitions to the extent possible.

6.6 Leverage existing interpretive guidance

Additional corresponding question: Scope 3 Survey - 29

Where more developed thinking has resulted in improved examples, more relevant disclosure suggestions and clearer guidance for preparers, we recommend bringing this guidance into the GHG Protocol. For example, PCAF offers improved disclosures that are more granular but offer the reader more transparent information about the development of an estimate.

Interpretive guidance for industries or sectors has also attempted to fill the gaps of the current Scope 3 Guidance, either by defining additional categories or subcategories, or

¹¹ [Scope 2 Guidance.pdf \(ghgprotocol.org\)](https://ghgprotocol.org/sites/default/files/standards/Scope%2020Guidance.pdf), Section [6.7] page 49 Greenhouse Gas Protocol, 2015 <https://ghgprotocol.org/sites/default/files/standards/Scope%2020Guidance.pdf>. Retrieved March 8, 2023.

simply requiring the subcategories that the Scope 3 Guidance identifies as optional. This information could also inform the update process for the Scope 3 Guidance.

7. Scope 2 Guidance

Because the Scope 2 Guidance is part of the Corporate Standard, our comments on the Corporate Standard continue with several questions relevant to the reporting of scope 2 emissions.

7.1 Scope 2 Quality Criteria

Corresponding questions: Scope 2 Survey - 13, 14, 40, 41

We believe aspects of the practicalities of complying with the requirements of the market-based approach should be revisited.

The Scope 2 Guidance provides explanation for what Criteria 3 (retirement for claims) means. However, it stops short of providing the specific requirement that would make this a true indicator of quality – i.e. that the preparer has evidence that the claim has in fact been retired. The explanation of the criteria uses other verbs to describe how a claim could be retired, but examples leave out the practicalities of relying on a registry being updated or an audit of contracts that is likely done after reporting. There could be delays in timing at each stage of the process of purchasing, redeeming and retiring that could be addressed with practical examples.

We recommend developing examples to illustrate the appropriate execution of Criteria 4 (vintage) related to the timing of when purchasing, obtaining and retiring certificates may be carried out – supplemented by common issues experienced and solutions. Consider these scenarios, for example.

- If too many RECs are purchased for one year, is it acceptable to apply the REC to the subsequent quarter?
- If the REC is purchased, but the documentation is not received before the issuance of the GHG emissions inventory, in what circumstances is it acceptable to apply the REC anyway (since evidence that it is retired cannot yet be obtained due to timing)?

The current guidance on application and reporting related to these instruments requires updating to deal with the current environment in which suppliers within a value chain are prepared to report their scopes 1 and 2 emissions on a timeline that allows:

- the supplier to ensure any contractual instruments it is reporting have met the Scope 2 Quality Criteria, including evidence necessary to determine it is a legally enforceable right and can reasonably determine it has the sole claim to renewable energy produced;
- sufficient time for the supplier to obtain its own assurance service on the report for which it is taking responsibility; and
- reporting the assured emissions to the requestor within a cycle that permits inclusion of the information within a preparer's own scope 3 emissions; and when required, still leave time for the requestor's own assurance process.

We think the GHG Protocol should address these practicalities and consider the value of disclosures to address concerns raised regarding the Scope 2 Quality Criteria. For example, a disclosure could indicate to the reader the percentage of instruments for which the preparer received positive confirmation of retirement. Disclosures of this

nature may encourage behavior through transparency without mandates for action from other standard setters or regulators.

7.2 Provide guidance for new developments in the market

Additional corresponding question: Market-based Survey - 18

As explained in Appendix 1, there will continue to be a need to keep up with the changing environment and the new ways in which markets develop in the drive toward lower carbon economies. The market for contractual instruments is evolving and practices may arise that expose where vague guidance is being misused and distorting information. Not all contractual instruments have the same market influence or result in production of more renewable energy or clean energy; however, the Scope 2 Guidance treats them all equally.

Further, more guidance is needed on the appropriate presentation of renewable natural gas and quality criteria to assess carbon offsets. The GHG Protocol should consider if ignoring different types of tools used to reduce emissions is still consistent with its objectives and the needs of preparers that are making good faith efforts to reduce their absolute emissions.

The GHG Protocol's go-forward process should consider the market demand for a type of tool or approach. For example, in the absence of GHG Protocol Standards to apply market-based approaches to calculating scopes 1 and 3 emissions, the void may be filled by ad hoc approaches that are both inconsistent and may not be aligned with the GHG Protocol's view of what is an appropriate way to consider contractual arrangements in other areas of emissions measurement.