

## Proposal template: Governance and oversight

This document includes PwC's supplemental proposal to the Greenhouse Gas Protocol on broad governance matters. It should be read in conjunction with our [summary letter](#), responses to the [Corporate Accounting and Reporting survey](#), [Scope 2 Guidance survey](#), [Scope 3 Standard and Scope 3 Calculation Guidance survey](#), and supplemental proposals on (1) [consistency with financial reporting](#) and (2) [tracking emissions over time](#).

Please refer to the Greenhouse Gas Protocol website for more information on the supplemental [proposal template](#).

### **Template for submitting proposals related to GHG Protocol's *Corporate Standard, Scope 2 Guidance, Scope 3 Standard, Scope 3 Calculation Guidance* and market-based accounting approaches**

#### **RESPONDENT INFORMATION**

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*If proposals are made publicly available, would you like your proposal to be made publicly available? Please write either "Yes" (make publicly available) or "No" (do not make publicly available).*

Yes

*If your proposal is made publicly available, would you like it to be made publicly available with attribution (with your name and organization provided) or anonymous (without any name or organization provided)? Please write either "With attribution" or "Anonymous".*

With attribution.

#### **PROPOSAL AND SUPPORTING INFORMATION**

1. *Which standard or guidance does the proposal relate to (Corporate Standard, Scope 2 Guidance, Scope 3 Standard, Scope 3 Calculation Guidance, general/cross-cutting, market-based accounting approaches, or other)? If other, please specify.*

This proposal is general and cross-cutting. It applies broadly to governance of GHG Protocol and also includes broad recommendations to enhance the relevance and operability of the scope 1, scope 2, and scope 3 standards. The recommendations included herein are also provided in a [summary letter](#) we prepared to highlight our most significant recommendations.

In addition to this proposal, we provided detailed responses to the [Corporate Accounting and Reporting Standard survey](#), the [Scope 2 Guidance survey](#), and the [Scope 3 Standard and Scope 3 Calculation Guidance survey](#).

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2. *What is the GHG accounting and reporting topic the proposal seeks to address?*

Please refer to our response to question 1.

3. *What is the potential problem(s) or limitation(s) of the current standard or guidance which necessitates this proposal?*

The cross-cutting recommendations outlined herein are intended to assist GHG Protocol in establishing and maintaining its relevance in order for its standards to meet the evolving needs of the users of GHG emissions information. We recommend reassessing the purpose of GHG Protocol, investing in its governance and organizational structure, and realigning its guidance to meet the needs and expectations of its growing and diverse stakeholder base.

4. *Describe the proposed change(s) or additional guidance.*

This proposal template supplements our survey responses to provide an overview of our broad points for consideration as GHG Protocol contemplates updates and changes to its guidance.

### Purpose

GHG Protocol is one of the most widely known and applied sustainability reporting frameworks. Even as ESG reporting continues to increase in prominence with proposed disclosures from the European Union as part of the Corporate Sustainability Reporting Directive (CSRD), internationally by the International Sustainability Standards Board (ISSB), and in the United States by the Securities and Exchange Commission (SEC), the criticality of GHG Protocol is reinforced by its incorporation in each of these “big three” proposals. The *GHG Protocol Corporate Standard* (the Corporate Standard) was created for this purpose, as a common standard intended to “improve[ ] the consistency, transparency, and understandability of reported information.”<sup>1</sup>

Sustainability reporting, however, has evolved substantially since the GHG Protocol was launched more than 20 years ago. Not only is there increasing global urgency around greenhouse gas reductions, but greenhouse gas data is being used by a growing array of stakeholders to assess the contribution of individual companies to global warming and to measure their success in transitioning to lower carbon business models. Further, the increasing integration of sustainability information — including greenhouse gas emissions data — with financial information, as well as its increasing prominence, requires standards with enhanced rigor, flexibility, and clarity. In response, we believe that GHG Protocol should consider strategic, structural, and technical changes to maintain the quality and relevance of its guidance in light of its increasing importance to a broader group of stakeholders.

As a first step, we recommend that GHG Protocol redefine its purpose — with more specific recognition of the needs of multiple stakeholders and without bias or tailoring for a particular user group. Given continuous development in the emissions reporting environment, we believe it is critical that GHG Protocol recognize that its standards are referenced and used beyond the scope of environmental science, further supporting the need to prepare standards through a lens of stakeholder neutrality. Developing a statement of purpose reflective of a broader mission and expanded usage alongside financial reporting will ensure that the protocol remains relevant and flexible as reporting frameworks continue to evolve.

We also have overarching recommendations in the areas of governance, organization of the reporting standards, interoperability, and enhanced data quality as discussed below.

### Governance

The reporting of financial information has developed over decades, building credibility through a high-functioning ecosystem of players — including management, corporate directors, auditors, standard setters, and regulators — working together for the benefit of financial statement users.

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<sup>1</sup> [GHG Protocol Corporate Standard](#), page 3

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While the financial reporting ecosystem had decades to achieve a robust common framework, parties in the ESG ecosystem will need to emulate this progress at a dramatically accelerated pace to effectively meet the burgeoning demand for sustainability information.

Because its standards are the linchpin of emissions reporting, GHG Protocol is a crucial player in the future of credible, reliable sustainability information. Accurate greenhouse gas reporting is integral to achieving emissions reduction targets, monitoring emissions activity by governments and regulatory agencies, understanding the impact of corporate actions, and informing investment and similar decisions. The more than 20 years already invested by GHG Protocol provide it with a strong foundation of reporting requirements; however, we believe changes are needed to more formally embrace its role as a credible and established international standard setter. By formalizing its operational practices and policies related to the development of standards, GHG Protocol would build trust in the emissions reporting environment, enhancing transparency and allowing users to rely on and apply its guidance consistently.

In our experience, elements of high-quality standard setting include:

- An oversight board comprised of key stakeholders
- A standard setting board with relevant expertise (e.g., engineering, sustainability reporting, standard setting)
- Formal due process over issuance of new standards
- Post implementation review
- Process for continuous updates and maintenance
- Competent staff from all relevant disciplines in sufficient number to achieve the objectives of the organization
- Independent source of funding

We also believe that there is value in developing a mechanism for interpretative guidance, similar to the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) or the IFRS Interpretations Committee of the International Accounting Standards Board (IASB). An implementation and interpretation group — with representatives drawn from a cross section of GHG Protocol's constituencies, including preparers, environmental scientists, auditors and greenhouse gas attest providers, standard setters, regulators, and others — would improve the consistency and quality of emissions disclosures while providing a resource to preparers as the expectations of users continue to escalate.

In addition, the heightened focus on emissions reporting creates an increase in expectations for GHG Protocol to address and resolve related reporting issues (e.g., estimation techniques, measurement methodologies) as well as to continue to evolve with changing user expectations. To support the effective reporting of emissions, we strongly believe there is a need for GHG Protocol to invest in its own organizational structure, ensuring that relevant expertise and capital are dedicated to the improvement and maintenance of its reporting standards. This investment will provide returns to all stakeholders in the sustainability reporting ecosystem.

### Organization of the reporting standards

As greenhouse gas emissions reporting continues to increase, so too will the need for complete, clear, and actionable guidance. GHG Protocol's current guidance — including the Corporate Standard, the Scope 2 Guidance, and the Corporate Value Chain (Scope 3) Accounting and Reporting Standard — developed over time and intermingles background information, case studies, definitions, required and optional disclosures, and more. Further, in some cases it may be difficult for a user to identify the appropriate source of guidance and to reconcile differences among the standards and guidance or discern how they interact with one another, posing a risk that relevant information is misinterpreted or overlooked. The availability of separate guidance for cities and communities (e.g., Global Protocol for Community-Scale Greenhouse Gas Inventories), sector-specific guidance (e.g., A Recommended Methodology for Estimating and Reporting the Potential Greenhouse Gas Emissions from Fossil Fuel Reserves), and other supplemental standards (e.g., Product Life Cycle Accounting and Reporting Standard) may add to the confusion.

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We believe now is the time to restructure the full suite of standards and guidance, emulating some of the elements of financial reporting — standards issued by the FASB and IASB — that are being leveraged by the SEC and standard setters such as the ISSB and the European Financial Reporting Advisory Group (EFRAG) in its drafting of the European Sustainability Reporting Standards (ESRS). We recommend that GHG Protocol consider the following elements that in our experience support the effectiveness of standards on any topic:

- Topical delineation — the standards and guidance could be separated among categories such as general topics, scope 1, scope 2, scope 3 reporting, and sector-specific guidance; each topical area could be further divided by subtopic.
- Archetypal organization — for example, each topic could include the purpose, background, recognition, measurement, required disclosures, and optional disclosures, supplemented with the basis for conclusions, case studies, and definitions. This type of organization would facilitate understanding of the core requirements, provide context for the users through background and basis for conclusions, and ensure relevant guidance is not overlooked. In addition, in some cases, elements of the existing content may be more appropriately included as supplemental educational materials, which would further clarify the requirements for users.
- Numbered standards and paragraphs — a common numbering scheme would facilitate referencing and understanding.

Consolidating all relevant emissions reporting guidance into a structured group of standards would also help foster a strong governance and standard-setting environment, further supporting climate objectives and global climate goals. It would also allow for more targeted updates to be made to specific elements of the GHG Protocol without reconsideration of all elements, making it easier for users to understand which elements may have been updated and how.

### Interoperability

We believe that GHG Protocol's primary responsibility is to establish baseline expectations with respect to the recognition and measurement of greenhouse gas emissions. There are, however, other aspects of reporting greenhouse gas emissions, including materiality, organizational boundaries, presentation (e.g., number of years to be presented, disaggregation of greenhouse gases, scopes to be presented), required disclosures, verification and attestation, and similar matters that may be dictated by other frameworks. For example, the big three proposals all reference GHG Protocol in some manner for recognition and measurement but provide their own guidance on the other matters.

To be most useful to the widest range of preparers, standard setters, regulators, and other stakeholders, we recommend that GHG Protocol structure its guidance such that its recognition and measurement considerations are foundational and applicable in both voluntary and mandatory GHG reporting schemes. The recognition and measurement foundation should be coupled with supplemental guidance that could be applied in the absence of requirements specified by a regulator or another standard setter. These "building blocks" should provide sufficient guidance to support consistent and high quality disclosures for those not reporting under prescriptive frameworks.

For example, the supplemental guidance would include information on the assessment of materiality and acceptable forms of attestation as well as requirements for organizational boundaries, presentation, and disclosure. Other stakeholders may identify additional matters that would also be helpful to ensure consistent and transparent reporting. These elements, where applicable, should leverage similar concepts in financial reporting and other recognized standards such as the International Organization for Standardization environmental management standards (ISO 14000).

We believe this change in structure and approach would enhance GHG Protocol's interoperability with emerging required reporting frameworks, minimizing incremental costs and effort for preparers while continuing to provide sufficient guidance for voluntary reporters.

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### Enhanced data quality

One of the frequent criticisms of greenhouse gas emissions reporting is the uncertainty inherent in the need for extensive estimates. Absent use of a continuous emissions monitoring system, emissions reporting by necessity incorporates some level of estimation. This leads to skepticism among many users, particularly as measurement methodologies — and the related measurements — change over time. Further, limitations in estimation techniques may hinder the ability of companies to meet their emissions reduction targets and other greenhouse gas emissions reductions goals, thus also potentially impacting broader societal climate change objectives.

We believe GHG Protocol is uniquely positioned to make a step change in emissions measurement techniques by more clearly outlining data expectations, requiring use of company-specific information where possible, and continuing to improve the methodologies used. We recommend that GHG Protocol focus on data quality improvement by users as a key tenet of its upcoming standard setting process.

In the interim, we believe that enhanced disclosures will aid users of reported emissions data by allowing better visibility into data strengths and weaknesses. Transparent disclosure of estimation techniques is a theme in financial reporting that has been welcomed by users making financial reporting an effective starting point to identify required disclosures. For example, fair value measurements in the financial statements are supported by detailed disclosures of the degree to which the data is observable and the extent of estimation needed to arrive at the amount of disclosed emissions. The relevant financial statement disclosures are supported by the fair value hierarchy elucidated in Financial Accounting Standards Board Accounting Standard Codification 820, *Fair Value Measurement*, and International Financial Reporting Standard 13, *Fair Value Measurement*. The accounting fair value hierarchy provides information about the types and quality of the inputs to valuation techniques used to measure fair value, separating such measurements into levels 1, 2, and 3. We believe a similar disclosure framework — based on factors and techniques of relevance in emissions measurement — would provide transparency and aid both preparers and users by promoting understandability.

We also recommend that GHG Protocol require enhanced disclosure about the key methodologies, assumptions, and estimates used in developing a company's greenhouse gas inventory (e.g., organizational boundaries considered, emissions factors used). Additional disclosures may help bridge the expectations gap of users, who are keen to understand the extent of management judgment underlying reported emissions.

5. *Please explain how the proposal aligns with the GHG Protocol decision-making criteria and hierarchy (A, B, C, D below), while providing justification/evidence where possible.*
  - A. *GHG Protocol accounting and reporting approaches shall meet the GHG Protocol accounting and reporting principles (see Annex for definitions):*
    - *Accuracy, Completeness, Consistency, Relevance, Transparency*
    - *Additional principles for land sector activities and CO<sub>2</sub> removals: Conservativeness, Permanence, and Comparability if relevant*

Our proposal seeks to further all of the GHG Protocol accounting and reporting principles as discussed in further detail in question 4.

- B. *GHG Protocol accounting and reporting approaches shall align with the latest climate science and global climate goals (i.e., keeping global warming below 1.5°C). To support this objective (non-exhaustive list):*
  - *Direct emissions reported in a company's inventory should correspond to emissions to the atmosphere. Reductions in direct emissions reported in a company's inventory should correspond to reductions in emissions to the atmosphere.*
  - *Indirect emissions reported in a company's inventory should in the aggregate correspond to emissions to the atmosphere. Reductions in indirect emissions reported in*

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*a company's inventory should in the aggregate correspond to reductions in emissions to the atmosphere.*

We believe it is critical that GHG Protocol's standards provide a complete and central source of guidance for any stakeholders who apply it. We believe that disaggregation of the guidance poses a risk that stakeholders may not be aware of, and therefore not apply, the guidance in its complete form. By consolidating all relevant emissions reporting guidance into a single core standard, GHG Protocol's standards and guidance would foster a strong governance and standard-setting environment, further supporting climate objectives and global climate goals. See further discussion in our response to question 4.

*C. GHG Protocol accounting frameworks should support ambitious climate goals and actions in the private and public sector.*

- Would this proposal enable organizations to pursue more effective GHG mitigation/decarbonization efforts as compared to the existing standards and guidance? If so, how?*
- Would this proposal better inform decision making by reporting organizations and their stakeholders (e.g. related to climate-related financial risks and other relevant information associated with GHG emissions reporting)?*

We believe that formalizing its operational processes and policies as well as ensuring standards are relevant, up-to-date, and interoperable with intersecting frameworks would enable GHG Protocol's standards and guidance to foster transparency and consistency within the sustainability reporting environment and further support global climate goals.

*D. GHG Protocol accounting frameworks which meet the above criteria should be feasible. (For aspects of accounting frameworks that meet the above criteria but are difficult to implement, GHG Protocol should provide additional guidance and tools to support implementation.)*

- What specific information, data or calculation methods are required to implement this proposal (e.g., in the case of scope 2, data granularity, grid data, consumption data, emission information, etc.)? Would new data/methods be needed? Are current data/methods available? How would this be implemented in practice?*
- Would this proposal accommodate and be accessible to all organizations globally who seek to account for and report their GHG emissions? Are there potential challenges which would need to be further addressed to implement this proposal globally? What would be the potential solutions?*

Our objective in making this proposal is to ensure that GHG Protocol maintains its ability to accommodate and be accessible to all organizations globally seeking to use its standards. Further, it would enhance its interoperability with other sustainability standards frameworks. Specific benefits of the proposal are included in our response to question 4.

*6. Consistent with the hierarchy provided above, are there potential drawbacks or challenges to adopting this proposal? If so, what are they?*

Not applicable.

*7. Would the proposal improve alignment with other climate disclosure rules, programs and initiatives or lead to lack of alignment? Please describe.*

Please refer to our response to question 4.

*8. Please attach or reference supporting evidence, research, analysis, or other information to support the proposal, including any active research or ongoing evaluations. If relevant, please also explain how the effectiveness of the proposal can be evaluated and tracked over time.*

Not applicable.

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9. *If applicable, describe the process or stakeholders/groups consulted as part of developing this proposal.*

“PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), each of which is a separate and independent legal entity. With offices in 152 countries and almost 328,000 people, PwCIL is among the leading professional services networks in the world. Following consultation with members of the PricewaterhouseCoopers network of firms, our survey response summarizes the views of those member firms that commented on the survey. Our response is informed by our interactions with clients and investors and our history of engagement and proactive thought leadership on ESG matters.

10. *If applicable, provide any additional information not covered in the questions above.*

Not applicable.