

Proposal template: Alignment with financial reporting principles

This document includes PwC’s supplemental proposal to the Greenhouse Gas Protocol on consistency with financial reporting. 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) [governance matters](#) 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 recognition and measurement and is intended to improve the relevance and operability of the scope 1, scope 2, and scope 3 standards.

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](#).

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

Please refer to our response to question 1.

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

GHG Protocol is currently the most widely used framework for emissions measurement and reporting and from our experience, most companies rely on its guidance in preparing their emissions disclosures. Historically, these disclosures have typically been provided as part of a company's sustainability report. Companies may also provide emissions information as part of environmental regulatory filings. Recent sustainability reporting proposals in multiple jurisdictions – 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) – would further increase the prominence of GHG emissions reporting by requiring disclosure together with the financial statements.

Standards issued by the Financial Accounting Standards Board and International Accounting Standards Board, as well as jurisdictional rules and regulations (e.g., SEC rules for public companies in the United States), provide a common language for users to understand the overall financial reporting framework applied. This uniformity enhances the usefulness of the financial statements and allows companies to more effectively convey information. We believe application of a common methodology in the calculation of greenhouse gas emissions would provide similar benefits.

Financial accounting and reporting principles are well established and may serve as an effective basis when developing guidelines on a myriad of topics that may not have historically been addressed by GHG Protocol. The principles in GHG Protocol's standards are derived in part from generally accepted financial accounting and reporting principles. We believe that GHG Protocol should expand that alignment to enhance comparability across companies and jurisdictions. This commonality will aid users of both financial reporting and GHG information. Further, evaluating the related financial reporting guidance and leveraging it where applicable is more efficient, providing GHG Protocol with additional bandwidth to address other emissions-specific reporting issues.

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

We recommend that GHG Protocol evaluate the applicability of financial reporting concepts in certain overarching areas applicable to a broad range of transactions as highlighted below. We believe incorporation of this guidance would improve operability for preparers and enhance useability for stakeholders by improving consistency and comparability across companies.

Events after the end of the reporting period

Information about activities, facts, and circumstances that occurred during the reporting period may become available after the reporting period ends. The current standards lack guidance with respect to evaluating the impact of subsequent events on emissions reporting and disclosure. We recommend that GHG Protocol incorporate guidance that outlines principles on how events occurring after the reporting period end should be analyzed and accounted for in the GHG emissions reporting. Specifically, we recommend that GHG Protocol leverage the related guidance for financial reporting as follows:

- Material subsequent events or transactions that provide additional information about conditions that existed at the reporting date, including the estimates inherent in preparing emissions reporting, should be reflected in the GHG emissions reported during the current period.
- Material subsequent events or transactions that provide information about conditions that did not exist at the reporting date but arose subsequent to that date should not be included in the emissions reported during the current period, but should be disclosed in that period.

These general concepts are consistent with the guidance for financial reporting discussed in ASC 855, *Subsequent Events*, and IAS 10 *Events After the Reporting Period*. Further, we believe GHG Protocol should consider whether there are any unique fact patterns that should be evaluated to assess whether

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the general model is applicable and appropriate. Examples and application guidance in this area would also aid preparers.

Measurement policies

Defining and disclosing policies for GHG measurement and estimates is essential. GHG emissions are often calculated using indirect measurement techniques utilizing a wide range of estimates and assumptions. GHG measurement estimates involve uncertainty and often require management to make subjective assumptions. We note that GHG Protocol does not distinguish between a GHG measurement estimate and a GHG measurement policy. Generally, stakeholders view estimates and policies differently, and a lack of clarity can be confusing to users and make applying the guidance more challenging. Accordingly, we believe that changes in measurement policies and estimates should be accounted for and disclosed differently.

We believe that GHG measurement policies are objective principles that establish the basis for a consistent and repeatable process for reporting GHG information. Examples of GHG emission policies would include the organizational boundary approach or calculation methodology selected. Chapter 9, *Reporting GHG Emissions*, requires disclosure of specific information about the organizational boundaries, operational boundaries, and methodologies used to calculate emissions. We recommend that this guidance be expanded to require that reporting entities also disclose details about all significant measurement policies, including describing key judgments made in applying the selected policy.

Reporting entities may change the selected measurement policies for various reasons, including preferability and consistency with industry peers. If a reporting entity changes a GHG measurement policy, we recommend that the Corporate Standard require that reporting entities:

- disclose changes in the measurement policy,
- restate comparative information using the new measurement policy, unless immaterial, and
- disclose key material factors supporting the rationale for the change.

Measurement estimates

GHG measurement estimates are used in developing a GHG inventory and involve uncertainty, often requiring management to make subjective assumptions. Examples of GHG estimates include assumptions used to determine activity data or emission factors when applying a selected calculation methodology. We recommend that GHG Protocol add requirements to provide specific disclosures about the significant inputs and assumptions used to calculate GHG emissions. Such disclosures should include information on emissions factors used, including their source.

In addition, changes in estimates may result from new information that reduces uncertainty associated with assumptions used in calculations and impacts reported information on a prospective basis. We believe the guidance applied to estimates in the financial statements provides a useful point of reference in developing a framework for estimating greenhouse gas emissions. Specifically, we recommend that the Corporate Standard require reporting entities to:

- update the initial estimates in (1) the period of change or (2) the period of change and future periods if the change affects both,
- disclose information on the nature of material changes in estimation methodologies, and
- disclose the rationale for such change.

We recognize that there may be situations when additional information about greenhouse gas estimates becomes available after the reporting period. Restating previously reported information

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that was prepared using all available information, however, may result in confusion for the users of the information without providing material benefit.

Errors

GHG Protocol does not provide either qualitative or quantitative factors to assist preparers in assessing whether a material misstatement has occurred. We believe that this guidance would be important as errors may have broad implications, including on previously reported information.

Chapter 5 of the Corporate Standard, *Tracking emissions over time*, requires reporting entities to restate base year emissions when significant errors are identified. We agree that the restatement of previously issued GHG information for material errors is necessary and allows for effective analysis and comparison of such data over time. We recommend, however, that the Corporate Standard expand this guidance on errors to:

- provide detailed guidance (including qualitative and quantitative considerations) on how to assess errors to determine whether a material misstatement has occurred,
- require that reporting entities restate comparatives to reflect the corrected information for material misstatements, and
- require detailed disclosures about the error and its impact in the current reporting period for material misstatements.

This guidance should be prepared in the context of the additional materiality guidance we recommend in our response to question 29 in the [Corporate Accounting and Reporting survey](#).

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 CO₂ removals: Conservativeness, Permanence, and Comparability if relevant*

Our recommendations are consistent with the GHG Protocol accounting and reporting principles because they would strengthen the requirements pertaining to cut off, which is critical to the completeness and accuracy of emissions reporting. Further, requiring retrospective adjustments for material errors and material changes in measurement policies would align with the principles of accuracy and consistency in the basis of reporting. Finally, changes in measurement estimates would only result from new information and maintain the integrity and consistency of previously reported information enhancing transparency and relevance.

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

We believe that our recommendations facilitate clear reporting about the impact of strategies implemented on GHG emissions. Such reporting will provide more decision-useful information regarding a reporting entity's journey toward meeting global climate goals.

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- 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)?*

Our recommendations support ambitious climate goals and actions because we believe that precise and enforceable reporting period cut off would encourage the performance (or nonperformance) of actions within a specified period by enabling users to track performance against a target. Further, information is most useful when provided with context. Additional disclosures about measurement policies, measurement estimates, and errors enhance transparency, and better inform decision making.

- 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?*

The proposed approach would not require that entities obtain any new data (other than as needed to apply existing guidance). We note that in applying our recommendations, reporting entities would need less historical information for purposes of revising previously calculated emissions on account of changes in estimates. Finally, due to better alignment with financial reporting, the processes already in place to capture financial information may be leveraged to gather the data needed to enact the changes suggested by our recommendations.

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

As noted in our responses to questions 3 and 4, we believe these recommendations will enhance reporting of emissions information by clarifying and expanding existing guidance.

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

In light of the climate-related reporting proposals put forth by the CSRD, ISSB, and the SEC, GHG emissions information is expected to increasingly be reported together with financial information, emphasizing the need for better alignment between financial reporting and GHG emissions reporting frameworks. Our proposal would enhance interoperability of the standards. Further, given that the impact of changes due to errors, estimates, policies, and reporting entity structure would continue to be reflected and more clearly reported and disclosed, existing users of this information would not be disadvantaged.

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.*

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

Not applicable.